Political Risk in the Agricultural Industry in the SADC region:

The Cases of Mozambique and Zambia

by

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ABSTRACT

Amidst the decline in investment returns of traditional sectors such as the oil and gas industry, investment in the agricultural sector is increasingly proving to be a viable alternative. In the Ernst & Young Africa 2015 Business Attractiveness Survey, respondents indicated that agriculture presented the most assuring growth opportunity in Africa. Being largely under-utilized, the African agricultural sector contains vast potential for further economic and commercial expansion. However the same survey revealed that these investors have perceptions of instability and uncertainty regarding doing business in Africa.

Subsequently, the objective of the research was to compile a list of essential political risk factors for the agricultural sector in the SADC region. With the rise in globalization and increased political and economic integration, the nation-state has taken a back seat to regional economic blocks. As such, it becomes increasingly important to approach political risk analysis with the regional unit in mind. Considering the contagion or spill-over effects from one country to another in an increasingly interconnected world, the value of country specific risk analysis is declining.

Through historical political analysis and country reports of Mozambique and Zambia as case studies, the research objective was achieved. To determine the salience and vividness of political risk factors for this industry in the region, a contextual analysis of each factor was conducted. The purpose of this analysis was not to produce a risk rating of the likelihood of each risk factor materializing, but to ascertain whether it is a political risk factor worth considering.

In answering the main research question, the research not only addressed the dearth of micro-political risk analysis (as most risk analysis is concentrated on the global oil and gas industry with little attention paid to other strategic industries), it also highlighted the disparity between the conceptualisation of political risk from an agricultural-business viewpoint and in international business.

As investment in the agricultural industry often involves the acquisition of large tracts of land, it is a highly contentious issue in the African context which carries significant socio-cultural and political sensitivity. The study found investment in agriculture to be highly susceptible to political risk. Four salient political risk factors for the SADC region’s agricultural industry were identified and includes security of land tenure, corruption, civil unrest and political instability.

This list of essential regional political risk factors for the SADC region’s agricultural industry, can serve as a decision-making tool for investors wanting to participate in this area. The outcome of this study can therefore be used as a tool to help decision-makers understand their risk exposure and to provide the basis for the development of appropriate risk management solutions in this regard.

OPSOMMING

Te midde van ‟n afname van beleggingsopbrengs deur tradisionele sektore soos die olie-en gasbedryf, toon belegging in die landbousektor dat dit in ‟n toenemende mate ‟n lewensvatbare alternatief is. In die *Ernst & Young Africa 2015 Attractiveness Survey*, het respondente aangetoon dat landbou die mees versekerde geleentheid vir groei in Afrika bied. Hoewel grootliks onderontwikkeld, beskik die landbousektor oor ontsaglike potensiaal vir verdere ekonomiese en kommersiële uitbreiding. Dieselfde opname toon óók dat dié beleggers persepsies van onstabiliteit en onsekerheid het betreffende saketransaksies met Afrika.

Gevolglik was die opstel van ‟n lys wesenlike politieke risikofaktore vir die landbousektor in die SADC-streek die doelstelling van dié navorsing. Die toenemende rol wat globalisering en politieke en ekonomiese integrasie deesdae speel het daartoe gelei dat nasiestate op die agtergrond gestoot is in vergelyking met ekonomiese blokke op streeksgebied. In ‟n toenemende mate lê die streekseenheid, vandag, politieke risiko analise ten grondslag. As in gedagte gehou word dat die aansteek- of oorloop- effek van een land na ‟n volgende in ‟n toenemende mate plaasvind in ‟n wêreld wat onderling verbind is, word dit duidelik waarom die waarde van land-spesifieke risiko-analise afneem.

Deur historiese politieke analise en onderskeie verslae van Mosambiek en Zambië as gevallestudies, is die navorsingsdoelwit bereik. Om die opvallendheid en duidelikheid van die politieke risikofaktore vir dié nywerheid in die streek te bepaal, is ‟n kontekstuele analise van die moontlikheid van elke faktor gedoen. Die doel van dié analise was nie om ‟n risikosyfer daar te stel vir die moontlikheid van elke risikofaktor se manifestering, maar om te bepaal of dit ‟n politieke risikofaktor is wat die moeite werd is om te oorweeg.

Ten einde die vernaamste navorsingsvraag te beantwoord, takel die navorsing nie net die gebrek aan mikro-politieke risiko-analise nie (aangesien die meeste risikoanalise konsentreer op die wêreld se olie-en-gasbedryf en weinig aandag skenk aan ander strategiese nywerhede); dit beklemtoon ook die dispariteit tussen

die konsepsualisering van politieke risiko uit die oogpunt van ‟n landbou-onderneming en ‟n internasionale sakeonderneming.

Aangesien belegging in die landboubedryf dikwels die verkryging van groot stukke grond behels, is dit ‟n hoogs kontensieuse kwessie in die Afrika-konteks wat belangrike sosio-kulturele en politieke sensitiwiteit inhou. Die studie het bevind dat belegging in landbou hoogs vatbaar vir politieke risiko is. Vier opvallende politieke risikofaktore is vir die SADC-streek se landboubedryf geïdentifiseer en sluit in die sekuriteit van grondhuur, korrupsie, burgerlike opstand/onrus en politieke onstabiliteit. Dié lys van wesenlike streeks politieke risikofaktore vir die SADC-strek se landboubedryf kan dien as ‟n besluitnemingsinstrument vir beleggers wat in die gebied wil belê. Die uitkomste van dié studie kan daarom aangewend word as instrument om besluitnemers te help om die mate van blootstelling aan risiko te verstaan en om die basis te verskaf vir die ontwikkeling van gepaste risikobestuuroplossings in dié verband.

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LIST OF ABBREVIATIONS

ANC	African National Congress
BSAC	British South Africa Company
BTI	Bertelsmann Stiftung‟s Transformation Index
DAs	Development agreements
DRC	Democratic Republic of the Congo
DUAT	*Direito de uso e aproveitamento da terra* (Right of Land Use and Utilization
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FLS	Frontline States
FRA	Food Reserve Agency
FRELIMO	Frente de Libertação de Moçambique (Mozambique Liberation Front)
GDP	Gross Domestic Product
IMF	International Monetary Fund
MANU	Mozambique African National Union
MDM	Movimento Demcrático de Moçambique
MMD	Movement for Multi-Party Democracy
MNR	Mozambique National Resistance
ODA	Official Development Assistance
RENAMO	Resistência Nacional Moçambicana (Mozambican National Resistance)
SADC	Southern African Development Community
SADCC	Southern African Development Co-ordination Conference
SSA	Sub-Saharan Africa
TNCs	Transnational Corporations
UDENAMO	União Deocratica Nacional de Moçambique (National Democratic Union of Mozambique)

UK	United Kingdom
UN	United Nations
UNAMI	União Nacional Africana de Moçambique Independente (African National Union of Independent Mozambique)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNHRC	United Nations Human Rights Council
UNIP	United National Independent Party
UPND	United Party for National Development
UPP	United Progressive Party
USAID	United States Agency for international Development
USDA	United States Development Agency
ZANLA	Zimbabwe African National Liberation Army

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CHAPTER ONE: INTRODUCTION TO THE RESEARCH

1.1 BACKGROUND TO THE STUDY

Investors are increasingly considering alternative investment opportunities to expand portfolio investments. One sector to which they are gradually flocking towards is agriculture. Agricultural stock and land commodities are proving to be viable investment opportunities, amidst declining investment returns of traditional sectors, such as the oil and gas industry. The global oil and gas industry is experiencing falling commodity prices caused by oversupply and increased spending on capital intensive projects (Global Oil & Gas Industry Outlook, 2016). Agriculture, arguably one of the oldest industries in the world, once again returned to the spotlight, offering a range of business activities with important economic linkages to other sectors.

In the Africa 2015 Attractiveness Survey, conducted by Ernst and Young[1], investors indicated that agriculture presents the most assuring growth opportunity in Africa. This notion was underpinned by almost a third of business decision-makers (31,4%) identifying agriculture as a pivotal driver of future growth. This was followed by mining and metals (28% of respondents) and the oil and gas sector (18, 5%) (Ernst & Young Survey, 2015).

A multitude of international economic and political institutions further agree on the growth potential of the African agricultural sector. The World Bank predicts that African agriculture and agribusiness should generate sales of US$ 1 trillion by 2030, whilst the United Nations (UN) forecasts that Foreign Direct Investment (FDI) in African agriculture will grow more than fourfold to US$ 45 billion annually, towards 2020 (Bafana, 2014 Kalibata, 2017). While international investment in developing agriculture is not new, it increased in quantity with novel features and implications (Hallam, 2009:2).

[1] The Africa 2015 Attractiveness Survey is an assessment of the appeal and desirability of a particular region/country as an investment destination to aid businesses in investment decision-making and to inform governments about barriers to further economic and investment growth. The findings are based on the assessments of representative panels of 'international and local opinion leaders and decision-makers' (Ernst and Young, 2015).

Private sector actors participating in this investment trend, include Transnational Corporations (TNCs), investment funds and other institutional investors[2], agricultural and agro-industrial companies and certain energy companies. The volatility in international food prices also triggered concerns of food security for countries heavily dependent on food imports. This subsequently led to the acquisition of agricultural land (most notably in the African continent) by various Gulf States for food production as part of their food security strategy (Hallam, 2009:2). African agricultural sectors are relatively underexploited and present a lucrative opportunity for these investors.

Several pull factors ascertain it an appealing investment category. Indicators pointing to a long trend of international investment in this strategic sector, include the expected rise in food prices (UNCTAD, 2009:93), population growth (ensuing growing market demand for food), and biofuel feedstock production. To institutional investors, the benefits of investing in agriculture include the attractive returns on land investment, a mix of current income and capital appreciation, uncorrelated returns with the equities market and a strong hedge against inflation (Food and Agriculture Organisation, 2013).

For host countries, investment in agriculture is vital to economic growth and achieving developmental objectives. It is particularly important considering dwindling Official Development Assistance (ODA) and in the limitations of these countries domestic budgetary resources[3]. As an employment creating- and income generating sector and the most effective strategy for poverty reduction, this sector represents a critical industry (World Bank, 2008; FAO, 2012). Alon and Herbert (2009:129) contend, “industries of strategic importance – such as natural resources, banking, finance and utilities and insurance – are more likely to be regulated than are industries of minor strategic importance, and thus face greater political risk.”

[2] Institutional investors refer to legal entities which merge capital to purchase securities, real property and other investment assets or originate loans. There are three categories of institutional investors. The first, traditional institutional investors comprises of pension funds, investment funds and insurance companies. Alternative institutional investors are hedge funds, private equity firms, exchange traded funds and sovereign wealth funds (Çelik & Isakson, 2014:96).

[3] ODA refers to financial aid flows intended for the promotion of economic development and the welfare of recipient countries.

Political risk indicates importance, relative to other risk sources concerning foreign investment in agriculture, especially when it involves the acquisition of agricultural land. This is due to the multifunctional characteristic of land. Beyond its economic value, land also has social, cultural and religious value, especially in Africa (Liu, 2014:6).

In view of the colonial history of African countries, foreign involvement in land and agriculture touches upon sensitive issues related to national sovereignty and independence. The notion of equating land transfers to „land grabs‟, demonstrates the socio-cultural and political sensitivity of "foreign land ownership or management amongst peoples who have been historically deprived of land themselves" (Maoulidi, 2015:22). In several African states, the land that several smallholder farmers cultivate, belongs to the state or traditional authorities. This further sustains the sentiment of neo-colonialism when external investors acquire tracts of land in these countries for further commercial use. It can therefore be claimed that "African land is a profitable but potentially dangerous investment" (Maoulidi, 2015) and may thus be highly susceptible to political risk.

Considering the above, a study of the nature of political risk in the agricultural sector on the African continent is warranted. Recognising that the nature and degree of the socio-political and economic climate vary from state to state globally (depending on historical, cultural and political considerations) the focus of such a study shall be limited to Southern Africa. In the modern state system, the regional unit has risen in prominence. This process, called regionalism, sees countries increasingly becoming more politically connected and economically interdependent. With the rise of regionalism, the potential for economic and socio-political contagion or transmission effects take place which leave them ultimately susceptible to political events and occurrences of their neighbours. This necessitates the need to conduct political risk with the regional unit in mind. States in the southern region of Africa are often identified by their membership to the Southern African Development Community (SADC). SADC is a region comprising 15 countries with great agricultural economic potential (SADC, 2013).

This sector remains a crucial driving force for economic development in the region, where most inhabitants rely on agriculture directly or indirectly as their main source of livelihood (Mutamba, Dlamini, Ngepah, & Simelane, 2015). Agricultural products indicate the main commodity in regional and global trade linkages for most SADC countries. Despite this importance, the region's net trade of agricultural commodities perform far below its production potential (SADC: Regional Agricultural Policy, 2013).To transform the region's largely subsistence agrarian society into a sustainable commercialised agriculture, requires increased investment in this sector by both the private and public sectors.

The aim of this research is to identify the main political risk factors in the agricultural industry in the SADC region. For this purpose, Mozambique and Zambia were selected as case studies. The rationale behind the selection of these case studies are explained in Section 1.5 of this chapter. The outcome of this study can assist investors identifying and analysing the essential political risk factors.

1.2 OVERVIEW OF LITERATURE

This research will predominantly focus on three areas of inquiry: political risk, Zambia and Mozambique, and their agricultural industry. The academic field of political risk is wide-ranging, encompassing various fields of inquiry. The selected text reflects this broad diversity of information through which a comprehensive image of political risk analysis will be presented. Most studies treating political risk both theoretically and empirically, are predominantly found within political economy literature. There is a lack of research conducted within the finance and agricultural (or Aquacultural Economics) framework.

The main texts on political risk analysis, include Brink's (2004) *Measuring Political Risk: Risks to Foreign Investment*, Bremmer and Keat‟s (2009) *The Fat Tail: The Power of Political Knowledge for Strategic Investing,* Kobrin‟s (1987) *When does Political Instability Result in increased Investment Risk?*, Lambrechts, Weldon and Boshoff‟s (2011) *Political Insecurity and the Extraction Industry in the Democratic Republic of Congo: Moving towards an Industry Specific Political security Risk*

Analysis Model, Bischoff and Lambrechts‟ (2010) *The Regional Impact of Political Risk: The Conflict in the Niger Delta and the Political Risk of the Gulf Of Guinea* and Howell‟s (1998) *Handbook of Country and Political Risk Analysis*.

Other sources that were consulted on Political Risk include Rummel and Heenan‟s (1987) *How Multinationals Analyse Political Risk*, Venter‟s (1999) *Political Risk and Suharto's Fall*, Alon, Gurumoorthy, Mitchell and Steen‟s (2006) *Managing Micropolitical Risk: A Cross-Sector Examination*, Alon and Herbert‟s (2009) *A stranger in a strange land: Micro political risk and the multinational firm*, Jakobsen‟s *Political risk for multinational companies: Empirical Evidence from a new dataset*, and Tarzi‟s (1992) *International Political Analysis and International Business: A New Model*. Other authors include Lax (1983), Sichei (2008), Iroanya (2013),Fitzpatrick (1983), Robock (1971), Hough's (2008) *An Introductory Context of the Methodological, Conceptual, and Theoretical Framework of Risk Analysis* and Alon *et al's* (2006) *Managing Micropolitical Risk: A Cross-Sector Examination*.

As observed from the above, this study used a balance of old (yet relevant) and current sources. It draws from the areas of political risk, international business, and agricultural economics. The study also consulted a variety of information sources, such as country reports, risk reports, historical agricultural industry overviews produced by country experts, multinational organisations and academics in the analysis of the two case studies.

1.3 RESEARCH PROBLEM

The aim of this research is to determine the essential generic political risk factors present in the agricultural industry in the Southern African region. The agricultural sector in (southern) Africa is largely under-utilised and subsistence based with vast arable land available for further development. The prospects of transforming this sector into large scale commercial agricultural enterprises, presents economic opportunities for investors. Through the survey conducted by Ernst and Young (2015), investors, doubtful and largely uncertain about the risks attached to investing in this area, indicated perceptions of instability and uncertainty regarding investment and doing business in Africa.

Political risk is furthermore important for all businesses and industries. Political decisions and the resulting changes to the business environment affect all stakeholders to a varying degree. The identification, assessment and measurement of political risk therefore remain a recurring issue for business. Brink (2004:4) contends that there is a continued relationship between politics and businesses, affecting investment. Understanding this relationship will enable decision-makers to comprehend the political risk when investing. These risks can be exploited and possibly profited from, only when the nature and extent of the political risk involved is determined.

The main research question of this study is: *What political risk factors should investors take cognisance of before investing in the agricultural industry in the SADC region?* The independent variables are the main political risk factors and the dependent variable is the agricultural industry in the SADC region. Two sub-questions will aid in responding to the main research question, these are:

- What are the main political risk factors influencing the agricultural sector in Zambia?
- What are the main political risk factors influencing the agricultural sector in Mozambique?

1.4 OBJECTIVES AND RELEVANCE OF THE RESEARCH

The relevance of this research can be found in an increase in interest amongst investors in the agricultural industry of developing African countries. Agribusiness on the African continent presents unbounded opportunity for those seeking higher capital returns on their investment ultimately. Over half of the panel in the Ernst and Young Africa Attractiveness Survey (54,6%) indicated that political instability remains the biggest obstacle for companies operating in Africa (Ernst & Young, 2015).

However, perceived risks are indicated and do not necessarily mean real risk. A thorough analysis of political risk factors in the agricultural industries of Zambia and Mozambique can therefore assist with one of the three tenets of risk-management, namely, identifying, measuring and managing risk. The objective of this research is not to conduct a political risk analysis of the case studies, but to focus on one of these tenets of risk-management namely, identifying risk.

This undertaking can assist in identifying actual risk and the measurement thereof, enabling investors to construct informed decisions. This is important as managing a successful commercial agricultural enterprise requires risks to be recognised, their potential effect on returns determined, and plans to manage or mitigate them be formulated (Blignaut, Louw & Malan, 2010). The outcome of this research may act as a useful strategic and decision-making instrument for investors wanting to participate in the agricultural sector in African developing countries.

Previous and current models of political risk analysis, contain several factors not necessarily all at play in certain countries or a given economic sector or industry. The Economist's 1986 political risk evaluation model, for example, lists Islamic Fundamentalism as a political risk factor. It can however, be argued that this model would not provide an accurate picture of the actual political risk level in any industry or country in South America. Islamic Fundamentalism does not presently constitute a threat in this region.

Variables not applicable in a certain region or industry would therefore weigh down or lighten the overall risk projection. The result of these convoluted indices or models is an exaggerated picture of political risk. Consequently, a distorted level of political risk can discourage investors from investing in a business venture. Through exploring the generic elements of political risk operating in the African agricultural sector, this research may assist with creating models of industry-specific political risk.

This research would also contribute to the academic field of political risk analysis. Insufficient quality industry-specific research is indicated in areas of political risk analysis. Theoretical and empirical work on political risk has been predominantly confined to the extractive industries (most notably the oil and gas sector). This is demonstrated by the number of authors on political risk in the oil and gas sector, such as Alon and Martin (1998) Berlin and Vrooman (2003), Frynas and Mellahi (2003), and Lax (1983).

Micro-risk analysis therefore indicates an under-researched area. By investigating political risk specific to the agricultural industry, a valuable contribution can be made to the expansion of political risk. In contributing to the wider discussion of (micro) political risk analysis, this research also attempts to bring together different fields of academic inquiry which was hitherto been approached independently. This study synthesises literature from political risk, agricultural studies and international business.

The focus on the agricultural industry is highly relevant to political risk analysis. Food production industries, particularly traditional agricultural, constitute some of the industries traditionally subjected to heavy regulations. It can therefore be expected that political risk is as equally important as other risk sources. Agricultural investment pertaining to the acquisition of land can also trigger political risk as land possesses intrinsic and symbolic value. Similar to extracted mineral resources, the economic benefit and ownership derived from the cultivation of land, increases this industry’s susceptibility to political risk.

1.5 RESEARCH DESIGN AND RESEARCH METHODOLOGY

The objective of the research was to identify the salient political risk factors in the agricultural industry, indicating problem solving and decision-making as the underlying theory. Political risk analysis is the first step when deciding to invest, creating an awareness of potential risk factors that might impact an investment. It is thus a rational attempt at solving a problem. The research design utilised in this research is of an empirical nature, where existing data will be analysed to determine the causal and historical questions surrounding the relationship between political risk and the agricultural industry in southern Africa.

The methodology was qualitative. Qualitative research can be defined as research where findings are reached through observational methods and the analysis of documentary evidence, rather than through statistical procedures or other methods of quantification (Snape & Spencer, 2003:3). The aim of qualitative research is to provide interpretive value to social phenomena, rather than providing numerical precision. To answer the primary research question, secondary data are used in the findings of chapters two, three and four.

The research design included a multiple case study analysis. Case study analysis can be defined as the ‘”intensive study about a person, a group or unit, which is aimed to generalize over several units (Gustafsson, 2017). This specific study made use of two cases, inclusive of a comparative aspect, where the agricultural industry of Mozambique and Zambia were contrasted to identify the main political risk factors. Comparative design research is important in Political Science as it enables the researcher to identify common causes and make generalisations between the two phenomena analysed. “Comparison is a fundamental instrument of analysis which sharpens the power of description and plays a central role in concept-formation by bringing into focus suggestive similarities and contrasts amongst cases” (Collier, 1993:105).

There are also many advantaged of utilising a multiple case study over a single case study. By using the former search design, the researcher can understand the differences and similarities between the cases (Baxter & Jack, 2008, cited in Gustafsson, 2017). Evidence from multiple case study design, is also more generally accepted as stronger and reliable than the single case study design. “Thus, multiple cases allow wider exploring of research questions and theoretical evolution” (Eisenhardt & Graebner, 20017, cited in Gustafsson, 2017).

Zambia and Mozambique were selected as case studies on account of three reasons. Firstly, within the SADC region, both countries face a broad range of political security and socio-economic problems, typical of the rest of the region. Secondly, in addition to attracting substantial foreign direct investment within the agricultural sector in the region, both countries command economies as significant contributors to the regions‟ GDP. Both countries attracted the attention of investors and offer good opportunities for economic growth.

The agricultural industries in both countries are relatively underutilised considering their potential, increasing their attractiveness. Investors are not only looking for new economic sectors to invest in, but also for new untapped investment destinations. Emerging markets captured the attention of several economists and pundits for their spectacular economic progress and rapid economic ascent, though their growth lost momentum in recent years. These previously sought-after markets developed to such an extent, that their performances increasingly mirror those of highly developed countries.

Consequently, investors are looking beyond to „pre-emerging markets‟. The economies of Zambia and Mozambique are characterised by a less accessible, investible market, yet to undergo some meaningful economic development, compelling their potential for rapid growth and high returns, attractive to investors. Investing in these two countries though, involves certain risks. It is widely perceived that the most salient elements of risk in pre-emerging markets are those indicating currency and politics. Due diligence and understanding the general operating environment and domestic issues such as socio-political developments, is crucial in these markets.

The third consideration in selecting these two countries, was based on their political history. Mozambique and Zambia were colonised by the Portuguese and British, respectively. Subsequently, both countries hold differing political and institutional legacies affecting their political and socio-economic landscape to a certain degree. By selecting these two case studies, these differences were considered when analysing the salient political risk factors, presenting a more accurate picture of political risk in the region.[4]

[4] France is another colonial power who colonised countries within the SADC region. These countries consist of the island nations of Mauritius, Madagascar and the Seychelles. Other European imperial powers that colonized countries in Southern African include Germany (Namibia and Tanzania) and Belgium (Democratic Republic of the Congo).

In attempting to discover the significant risk factors that need to be analysed when considering investing in the agricultural industry in the SADC region, this research essentially also contains an exploratory aspect in its methodology. Exploratory research addresses the „what?‟ questions. It attempts to offer an elementary understanding within a topic (Babbie & Mouton, 2005:79). An overview of the agricultural industry was required in each of the case studies. This led the study to adopt a descriptive approach as the analysis of political risk requires a fundamental descriptive analysis of political, economic and social trends and their causal relationship. "Descriptive research presents a picture of the specific details of a situation, social setting, or relationship" (Neumann, 2000:22).

A historical analysis was conducted identifying the risk factors, based on how they impact the national (macro level for each of the two case studies, Mozambique and Zambia). The analysis enabled an extrapolated and compiled generic list of political risk factors for the agricultural industry in the Southern African region.

1.6 LIMITATION AND DELIMITATIONS OF THE STUDY

Political risk analysis proves conceptually difficult to define, alike most academic disciplines and terms in the social sciences, thus presented the first limitation. Scholars formulated a variety of differing conceptualisations of the term, each with its own merit and limitations. To attempt to resolve this limitation, this research observed a wide range of definitions of political risk in the second chapter, arriving at a clear and concise definition of the term.

The research form indicated a desktop-study. Desktop studies involve the compilation and analysis of pre-existing, relevant data. The limitation associated with secondary data indicates that the researcher has no control over the production of such data, as it was originally collected by someone else (Neumann, 2000). Field research were not conducted, due to time and financial constraints. Reliable secondary data were adequate to determine the salient political risk factors needed to be identified and measured when deciding to invest in the agricultural sector in southern Africa.

The exploratory nature of this research presented another limitation. According to Neumann (2000:21), exploratory research rarely yields definitive answers. In such a study, the researcher's goal is to rather formulate precise questions, enabling future research response. The level of analysis indicated micro and macro. Since the key question of this research centred on the agricultural industry, it was micro in scope but because it considered two states (Mozambique and Zambia), it was also macro.

1.7 CHAPTER OUTLINE FOR THE REMAINDER OF THE RESEARCH

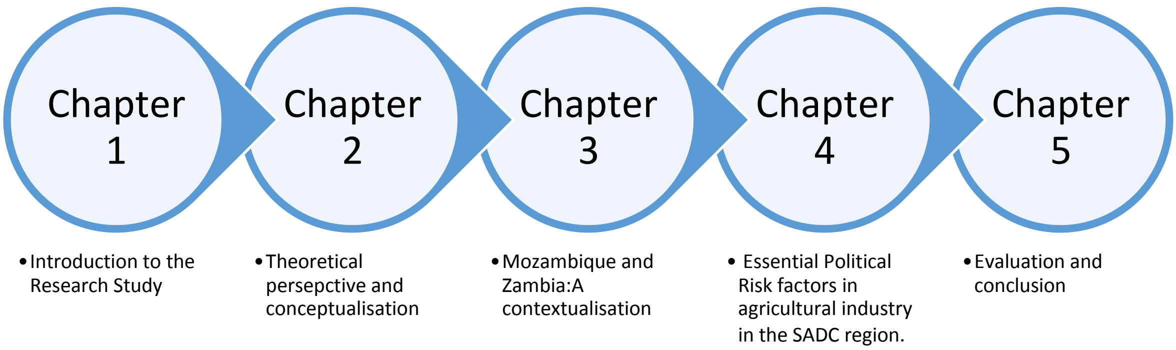

Figure 1.1: Outline of the remainder of the research

Figure 1.1 indicates the chapter outline for the research. The first chapter introduces the research by providing a general introduction and a concise literature review. The chapter further discussed the research problem and its formulation, with the research objective identified as clarifying the political risk factors associated with the agricultural industry in the Southern African region. The main research question with the two sub-questions were outlined, followed by the research design and methods of data collecting and finally the limitations and delimitations associated with the research.

The focus of Chapter 2 provides the theoretical perspective and -conceptualisation. It commences by scrutinising the decision-making and problem-solving theory.
Essential conceptualised terms comprise:

- Risk;
- Political risk;
- Political risk analysis; and Industry-specific risk.

This chapter offers a comprehensive observation of the agricultural industry by examining the body of literature on agricultural risks.

Chapter 3 presents the comparative contextualisation between Mozambique and Zambia. The chapter comprises a baseline construction of the situation in Mozambique and Zambia, providing an extensive political and socio-economic overview of each country. The overview on the respective political history in each country served as background to the prevailing political conditions, allowing the extrapolation of key political risk factors in the agricultural industry in the SADC region.

Chapter 4 highlights the essential generic political risk factors that ought to be measured when deciding to invest in the agricultural sector, concluding from these case studies,. The consideration of risk factors applicable to the regions‟ agricultural industry, were based on two levels, indicating the national and industry-specific level. The chapter concludes with its objective of providing a list of generic political risk factors for the region and this economic sector.

Chapter 5 concludes the research, providing an overview of each chapter's discussion and progression regarding the central research question. It also includes an evaluation of the research and possible recommendations for future studies.

1.8 CONCLUSION

This chapter presented the introduction and structure to this research study. The chapter commences, indicating diminished interest in the global oil and commodity markets led investors to seek asset classes with a better yield potential for their capital, of which the African agricultural sector is one. It further provides an overview of the research questions, the objectives and the relevance of study, the limitations and delimitations of the study and the methodology and research design.

The study's concern was predominantly industry-specific political risk, concerning one tenet of risk-management, indicating identifying risk. It used the cases of Mozambique and Zambia and their agricultural industries to extrapolate the main risk factors that investors should consider when deciding to invest in the agricultural industry in the SADC region. Subsequently, the research concluded with the compilation of a list of generic political risks competing in the agricultural industry in this region.

CHAPTER 2: LITERATURE REVIEW AND THEORETICAL CONCEPTS

2.1 INTRODUCTION

It is widely observed that contemporary society is filled with risks. Risks are man-made (such as theft, detrimental government actions, industrial actions and corruption) or natural (such as floods, wildfires, earthquakes, and erratic weather). Irrespective of its source, the fundamental characteristic of risk is that it is universal and unavoidable. Business institutions continuously face risks in their operations, no matter where they operate.

Agriculture also presents wide-ranging risks (Jaffee, Siegel & Andrews, 2010). It ranges from the vagaries of weather, differing production and market cycles to "the unique and uncertain political economy of food and agricultural sectors, both domestic and international" (Jaffee *et al.*, 2010). Producers of agricultural commodities are subjected to these risks, but they are not the only ones suffering from the consequences. Firms operating in the agribusiness sub-sector, (the processing and logistics companies that move agricultural produce to markets) and ultimately consumers all suffer to some extent.

Bremmer and Keat (2010) argue that political risk is relevant in the global environment. They support their argument by indicating that politically unstable regions supply the world's energy needs. Global economic growth is progressively driven by markets known with less well-developed institutions (and high political volatility) including government intervention. The further dramatic increases in global economic integration and trade against this backdrop, also contributed to a climate in which political risk is of concern to companies. Political risk also indicates a concern in those markets deemed politically stable. Regulatory issues, shaped by politics, can also affect the business environment in markets, such as the United States and the European Union.

The year 2016 indicates an example of how politics had a considerable effect on global markets. A notable example is the United Kingdom's electorate's vote to leave the European Union in a referendum in June 2016. This indicates how political risk can manifest in countries deemed with a history of political stability. This policy change, known as „Brexit" is considered a potential disruption or change to regulations in the business environment that firms must factor into their decision-making.

The referendum result caused significant market volatility, resulting in the UK‟s currency depreciation against other major currencies (Global Risk Insight, 2016a). Another driver of this political risk is the terms of negotiations between the United Kingdom and the European Union and the impact that this will have. This will further fuel increased economic uncertainty and intensified market volatility. Concurrently, several other European states are also experiencing heightened political tension propelled by immigration, fears of terrorism, and tension with Russia (Global Risk Insight, 2016a). The need to understand and assess political risk in areas where businesses operate or want to operate in, regardless of its stability or market maturity, is therefore crucial.

This chapter explores theories associated with risk and risk analysis. As it will be seen, no agreement or concise definition for the concept *political risk* exists. To follow is a breakdown of the theoretical underpinnings and characteristics of political risk. This chapter elucidates the core terminology and aspects of political risk, offering conceptual clarity and producing a concise definition. This paves the outline for the rest of this research.

2.2 HISTORY OF POLITICAL RISK

The study of risk dates to ancient times as an art practiced by various decision makers; from merchants to individuals in the political or military field (Hough *et al*, 2008:6). It only became formalised as an academic discipline with the emergence of literature during the Cold War period. The 1970s was a decade characterised by the oil crisis of 1973[5], the Iranian Revolution[6] and numerous other politically motivated

[5] The oil crises emerged when Arab states in the Organization of Petroleum Exporting Countries (OPEC) enforced an oil embargo against the US in retaliation for the latter's support to the Israeli military and slashed

conflicts. This was also known as the era of nationalisation, where governments in developing countries expropriated the assets of foreign owned companies.

The political and economic turmoil and the accompanied instability in the international environment caused by these developments, led to the increased support and acknowledgement of political risk analysis as a discipline to be taken seriously (Graham, 1988:69). Interest in the field waned in the 1980s. Stapenhurst (cited in Howell and Chaddick, 1994:7) attributes this to the failure of companies to integrate the outcomes of Political Risk Analysis into corporate decision-making. Political Risk Analysis was further deemed a costly exercise for these companies in their pursuit for increased profits. Interest in the field surged again at the turn of the century, following an increase in global political insecurity.

Brink (2004:10) opines that, as the global environment is in constant flux, "political risks have to be checked constantly and assessments upgraded continually to provide clients with the latest and most thorough political risk analysis". As foreign investment in the agricultural sector rises, the need for political risk analysis increases. This is largely due to this industry being subject to great political concern. Land is a contentious issue, subject to nationalist sentiment and the altering of agreements. Social unrest due to foreign involvement in land deals, is therefore a potentially significant political risk for the stakeholder involved.

Growth in FDI flows and countries, posturing themselves as investment-friendly destinations, engendered the belief that there are lower levels of political risk. Jakobsen (2010:482) puts forth two arguments countering this belief. First, despite the liberalisation trend, contracts and guarantees are not always adhered to. "Host governments cannot control the preferences and resolve of other host country actors such as opposition politicians, rebel groups, local communities and NGOs" (Jakobsen, 2010:488).

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oil production. The cumulative effect of this has been inflation and stagnation in oil importing countries around the world (Angelova & Wile, 2013; The Guardian, 2011).

[6] The Iranian Revolution (1978-1979), was a mass popular civil insurrection which resulted in the toppling of the Iranian Monarchy and led to the establishment of an Islamic Republic (Afary, 2017; Zunes, 2009).

Secondly, multinational financial institutions imposed liberal economic practices on this countries‟ trade and business environment. “As these reforms are involuntary (to some extent) they are susceptible to become unpopular amongst important, disaffected interest groups in the host country, prompting backlash against FDI” (Henisz & Zelner, 2005, cited in Jakobsen, 2010:482). Chances of abrupt policy reversal are thus possible. Investors should therefore not buy into the false belief that a government positioning a country as business-friendly, will guarantee that their investment will be safe from political risk. This indication highlights that investors still need to assess and conduct political risk analysis. It also reinforces Brink’s (2004) opinion, mentioned above, that political risk has to be checked constantly.

2.3 DECISION-MAKING AND PROBLEM-SOLVING THEORY AS A THEORETICAL GROUNDING

Political Risk Analysis is grounded in decision-making and problem-solving theory. Newell *et al* (1958, cited in Boshoff, 2010:14) succinctly define problem-solving theory as the way people respond when dealing with unfamiliar tasks, as the problem signifies a gap between the current state of affairs and the desired situation. This theory therefore allows for the solution of potential problems and offers rational and effective ways of resolving them. Decision-making theory posits that individuals and organizations are rational, risk-averse actors, intent on minimizing their uncertainty through detailed knowledge in pursuit of their goals. Combined with decision-making, these two theories regard “choosing issues that require attention, setting goals, finding or designing suitable courses of action, and evaluating and choosing amongst alternative actions” (Simon, 1986). At the heart of Political Risk Analysis is the objective to identify present and future events with the potential to result in losses. These losses can either be monetary, material or result in reputational damage.

When contemplating whether to invest in a foreign country, investors face a great deal of uncertainty. Under this cloud of uncertainty, political risk analysis can serve as a guide for investments and developments (Lambrechts *et al*, 2011:108). Political risk analysis for a business, is therefore one of the first steps in the decision-making process on foreign investment.

Political Risk Analysis first draws attention to a challenge and thereafter guides decision-makers to make rational attempts at problem solving. Through Political Risk Analysis, the external environment is examined. Decision-makers evaluate the impact of political events on the profitability of their investments and subsequently manage or mitigate these risks. Risks need to be consistently monitored as political risk is dynamic in nature. The risk analyst must therefore collect information based on insight into the dynamics of the host country, the requirements of the investors, and the investment climate, to anticipate what is likely to happen, formulate strategies to mitigate or manage these risks and decide what should be done to secure a favourable outcome.

2.4 CONCEPTUALISATION OF CORE TERMINOLOGY

2.4.1 Risk

Various definitions, with some commonalities between them, of the term *risk* exists. Chicken (1996, cited in Brink, 2004:17) defines risk as the existence of “doubt regarding the frequency and consequences of undesirable events”. Bremmer and Keat (2009) define risk as “the probability that any event will turn into a measurable loss”. They further contend that risk can be measured as probability multiplied by impact. Hough (2008:11) proposes a similar definition, stating that risk is “a probabilistic assessment” and that it is the “undesirable and potential harm or danger to anyone that results from behaviour and action, or from a particular event, situation or issue” (Hough *et al*, 2008).

Vertzberger (1998:22) analogously defines risk as “the likelihood that validly predictable direct and indirect consequences with potentially adverse values, will materialise, arising from particular events, self-behaviour, environmental constraints or the reaction of an opponent or third party”. From these various definitions, it can be deduced that the term risk contains elements of probability, chance and loss. The term possesses a negative connotation, as risk often denotes an unfavourable impact.

It is necessary to distinguish between risk and uncertainty. These terms were often used as synonymous concepts, when it refers to two different aspects. While both terms denote future likelihoods, risk holds the added characteristic of implying the ability to calculate probabilities (Lax, 1983:8). The distinction between the concepts indicates that risk occurs when decision-makers have knowledge of all possible outcomes of an event and the probability of it occurring.

Uncertainty refers to a situation where decision-makers neither have the knowledge nor probability of outcomes occurring (Vertzberger, 1998:20; Bremmer & Keat, 2010:16). Risk is quantifiable uncertainty, as it looks to transform uncertainty into something that is easier to deal with (Bremmer & Keat, 2010:17). To overcome this state and reach a more objective measurement of doubt, valid information can assist to convert uncertainty into risk (Howell, 1998:5; Kobrin, 1979:68).

Risk is also frequently (and incorrectly) likened to instability. Instability can be regarded as a factor of risk and is therefore not mutually exclusive. Frynas and Mellahi (2003:546) state that "(political) risk implies some ability to form a judgement (if only subjective) about the probability of different types of instability and to take all reasonable caution against it". Kobrin (1979:70) theorises that the main difference between these two concepts indicates (political) instability as property of the environment, while (political) risk is a property of the firm. For example, in Mozambique, social unrest caused by political instability, comes from the environment but the level of political risk faced by these unrests, belong to the firm. Political instability does not necessarily have to affect foreign investment or the firm, but political risk may.

2.4.2 Country risk

Initially equated to political risk, the term country risk indicates an analysis of risk factors which are broader than political risk. Over time it was realised that different firms and industries are subject to differing risk (factors), not always captured in a country risk report (Alon *et al,* 1996:626). Country risk can be defined as the potential financial losses stemming from macroeconomic events within a country (Brink, 2004:20; Howell, 2007:4). More precisely, it refers to sovereign- and transfer risk and the level of ability and preparedness of a country to service its governance obligations (Sichei, 2008:118).

Sovereign risk refers to the risk that a foreign central bank will change its foreign exchange regulations that can impact the value of foreign exchange contracts (Doyle & Brown, 1986:11). Transfer risk, related to sovereign risk, is the possibility of loss due to restrictions on currency conversion which restricts the movement of money outside of the country. The indicators of a country risk reports further comprise the balance of payments sheets, country credit worthiness, and data on debt servicing ratios. Brink (2004:174) opines that these macroeconomic events are "uncontrollable yet often inevitable" whereas political risk "recognised as factors caused by government policy (in) action or reaction, can to some extent be managed, if not avoided".

A shift is thus observed in concentration from the political in political risk, to financial and economic in country risk. Even though country risk is more economic, due to its focus on sovereign and transfer risk, it is still relevant to political risk to some extent. The macro-economic factors identified in country risk, shape the economic climate of a country, which in turn, is an important source of political risk. Even though country risk largely depends on the components of a country's balance of payments sheet, changes in these components are conditional upon (political) policy processes. Another way to discern between the two concepts, is to consider country risk relating to a sovereign state's ability to pay back money borrowed and political risk concerning to a country's willingness to pay back borrowed money (Krayenbuehl, in Frei & Ruloff, 1988:3; Brink, 2004:23).

2.4.3 Political risk

As mentioned, political risk recently witnessed an increase in importance in the interconnected world. The main challenge confronting anyone studying political risk, is the conceptual demarcation of the term. It is often difficult to determine what political risk entails and confusion arises when attempting to discern between manifestations of political risk and sources of political risk. It can be argued that a natural disaster be considered a political risk since it will have considerable political and socio-economic consequences. Equally so, and as stated above, country risk indicators can also be considered as a political risk since these macro-economic indicators are subject to political processes and influence the economic environment, which is a source of political risk. To gain conceptual clarification, it is essential to observe the definitions presented.

Earlier conceptions of political risk mostly used a state-centred approach, focussing on adverse government actions. Alon and Martin (1998:10) identified two challenges inherent in this approach. Firstly, it comprised a negative assumption, equating political risk to a negative phenomenon to firms or investments. Political risk does not only lead to negative and unwanted consequences. In addition to anticipating and avoiding risks, the analysis of political risk indicates identifying opportunities to turn high risk into high returns (Altier, 1999:16; Frei & Ruloff, 1988:2). The transition of former communist countries to market economies, which signified a major political event and economic change, opened investment opportunities for foreign investors and challenged this prevailing thought.

Secondly, the adherence to government actions detracts from other sources of political risk. Transnational corporations (TNCs) face a wider array of risk than during "the nationalisation wave of the 1960s and 1970s" (Jakobsen, 2010:482). With the rise of non-state actors in political systems, political risk can occur resulting from any action or influence that non-state actors wield. Actors beyond the control of government can include labour unions, religious groups, opposition forces or civil society movements which can negatively affect business operations of foreign companies or investors (Simon, 1982:68; Howell & Chaddick, 1994:71).

Other examples include terrorism, strikes and extortion which can be perpetuated by non-state actors, involving the use of violence with potentially devastating effects on businesses and states through destruction caused to infrastructure, property and the disruption of economic activity (Czinkota, Ronkainen, Moffett & Moynihan, 1998:238). "Socio-political risks can manifest in so many ways and stem from so many different sources – and involve so many different actors, spurred by so many different motivations" (Jakobsen, 2010:486).

Most definitions of political risk focus on changes within the political environment of the host country. Lax (1983:9) conceives political risk as "the likelihood that political changes will prompt a change in the investment climate regulating a project", whilst Kobrin (1979:77) maintains political risk is "the probability that changes in the political environment will reduce returns to the point where the project would be no longer acceptable on the basis *of ex ante* criteria".

Howell (1998:3) defines political risk as "the possibility that political decisions or events in a country will affect the business climate in such a way that investors will lose money or not make as much money as they expected when the investment was made". Robock (1971:7) also emphasises changes in the political environment when he states that political risk materialises when political change creates discontinuities in the business environment and thereby potentially "affecting the profit or other goals of a particular enterprise". It is also evident that there is agreement amongst these authors that political risk also refers to the possibility that firms will incur losses. The notion of political risk inducing changes that affects the business environment is still maintained.

A preponderance of literature portrays political risk as a phenomenon that is exclusive to the developing world. Liberal Western democracies have long been portrayed as immune to political risk. The exceptional rate and level of advancements in production communication and mobility brought new global risks and exacerbated existing risks and the transmission of these risks to developed countries (World Economic Forum, 2017:16). Changing climatic conditions can also trigger new socio-political crises, such as regional conflict and involuntary migration, or aggravate existing ones to which all countries are susceptible to.

Several Western democracies currently experience political fragility. Traditional mainstream politics in these countries are upended, resulting in a changed domestic political landscape. Voter dissatisfaction with the political establishment increases, while support for peripheral movements grows (World Economic Forum, 2017). Several political analysts point to the outcomes of the British referendum on EU membership and United States presidential election results in 2016 as indicative of this. The shift in political spectrum fragmented legislative groupings, complicating the formation of stable governments (World Economic Forum, 2017:23).

Subsequently, this affects policy implementation and -formulation, as policies have to be diluted to incorporate these policy trends. Support for anti-establishment politicians and policies in Western liberal democracies contributed to rising political risk in countries perceived to be immune to it. Political risk has therefore evolved from the narrow conceptualisation of „expropriation‟ or „nationalisation‟ by governments to include more sources, actors and manifestations. Political risk is thus no longer seen as a phenomenon confined to developing countries, as developed Western liberal democracies also increasingly experienced political risk.

Brink (2004:25) defines political risk as “the probability that interrelated factors caused or influenced by government political decisions, (in)actions, reactions, or other unforeseen external or internal events will affect business and investment climates in such a way, that investors will lose money or not make as much money as they expected when the initial decision to invest was made”. A distinction must be drawn between micro- and macro political risk, as political risk vulnerability “is clearly industry, firm and even projects specific” (Kobrin, 1978:114). Simon (1982:68) provides for this distinction, adding that political risk, originates “either within or outside the host country and negatively affecting either a select group of, or the majority of foreign business operations and investments”.

In recognising risks specific to some countries, firms and investment project, it should also be noted that the undertaking of a Political Risk Analysis is not only confined to Transnational Corporations (TNCs) or investment projects. For example, international humanitarian agencies that often operate in conflict zones, also need to conduct political risk assessments as they “are facing heightened levels of security risk in conflict zones” due to “the nature of contemporary conflicts and the post-9/11 global political-security environment” (Pringle & Lambrechts, 2011). The political risk assessments therefore differ depending on the nature of an operation. Similarly, consumers of political risk analysis have also included travellers who visit foreign destinations for a short period.

The director of Signal Risk, a security management consultancy (African Conflict Monitor, 2016:26) captures this when he asserts that "the manifestation of socioeconomic and political grievances […] and their impact is not only limited to local interest but extend to foreign entities with commercial, humanitarian, recreational and even familial interests". Cognisant of this, this research defines political risk as: the probability that the (in)actions, reactions or decisions of stakeholders within a political system and internal or external events or issues will impact on an individual person's/organisation's physical security or commercial, humanitarian, and/or recreational interest[7].

2.4.4 Political Risk Analysis

With its theoretical foundations rooted in problem-solving and decision-making studies, political risk analysis should form part of the decision-making process of any firm considering investing abroad. This equips investors with the knowledge about the prospective investment environment. Hough (2008:6) and Iroanya (2008:98) assert that political risk analysis is the systemic assessment and management of risk of a political nature to a foreign investor. This systemic means of assessing and managing political risk comprise three important functions (Lax, 1983:17).

- It positions the firm to rationally evaluate whether a specific project or investment should be pursued;
- It keeps the firm informed of political conditions and its impact on corporate interests, thereby enabling shrewd management of political risk;
- It guides the firm's external policy for its investment in a specific environment (Lax, 1983:17; Howell, 1998:292).

[7] Adapted from the assertion of Ryan Cummings, Director of Signal Risk, a security management consultancy that focuses on the impact of socio-economic and political grievances on foreign entities in Africa (African Conflict Monitor, 2016:26).

Several TNCs and international agencies “do not invest or grant aid without a sound political risk assessment of their target countries” (Iroanya, 2008:93). The analysis of risk should, however be carefully considered. There are several factors to consider if the product of a risk assessment is to be valuable and useful to decision-makers. It is important to distinguish between prediction and forecasting as an instrument in the analysis of political risk. Political risk analysis is grounded in forecasting, as it is an instrument to estimate the probability of occurrences, based on rational, empirical evidence and systemic information collecting (Brink, 2004:27). A prediction, conversely, involves an element of certainty. Political risk should be anticipated through a probability of observed trends and events and the way in which they are joined (Brink, 2004).

It is also important to consider the merits of quantitative and qualitative approaches in political risk assessment. It was widely held that the answer to obtaining accurate and objective risk forecasts lies in complex, quantitative models (Schnaars, 1987:105). Besides the objectivity associated with this approach, quantitative methods permit researchers to make generalisations, replications and comparisons (Simon, 1982:143). Certain shortcomings are indicated with the quantitative approach. Several political risk indicators are hard to quantify and quantitative methods predominantly focus on economic conditions, paying less attention to nonmarket forces. It thus fails to completely capture the concept that is originally under study, namely political risk. Quantitative risk models are more inclined towards country risk assessments, and less often used for industry-specific situations (Simon, 1982).

Qualitative methods, conversely, are more flexible and holistic. It is argued that qualitative methods enable the researcher to gain different perspectives, a better comprehension of fundamental reasons and motivations, and to uncover pervasive trends (Mercator, 2002). The qualitative method therefore, provides depth and detail, which is sacrificed in standard quantitative approaches.

Despite the weaknesses of qualitative methods in political risk analysis, such as the difficulty in replicating or generalising results, several political risk analysts concur, that it is imperative in this discipline to understand political events, processes, and their effects (Kobrin, 1978:121). Relevant political risk factors should be determined when conducting a political risk analysis, based on the circumstances and context of the environment researched. Brink (2004:11) further stresses the importance of incorporating the economic, environmental, societal and socio-economic dimension of political risk. A reliable and useful political risk analysis thus adopts both quantitative and qualitative elements.

The root of political risk analysis rests not only with the identification, description, explanation and forecasting of political events and processes, but also involves evaluating the impact thereof. Lax (1983:109) states that political risk analysis comprises two steps: forecasting the relevant risks, and evaluating their impact. He further states that "knowing tomorrow is not sufficient; determining how tomorrow will affect operations, profits, and other corporate concerns is key" (Lax, 1983:110). Another attribute of risk analysis is also risk mitigation, finding a way to avoid losses (Bischoff & Lambrechts, 2010:61).

For the purposes of this study, political risk is conceptualised as: a systematic and analytical process through which political risk is assessed qualitatively, with the objective to determine relevant factors of political risk, forecast the likelihood (probability) of the political risk materialising, and develop strategies to manage and mitigate such risk.

It is critical to observe industry-specific risk, considering and providing clarity to the terms political risk and political risk analysis, as this research concerns political risk in the agricultural industry in the Southern African region.

2.4.5 Industry-specific political risk

Political risks are not standardised occurrences; they vary between countries, between sectors of the economy, companies involved and each project (Lax, 1983:10; Kobrin, 1978:114). Even within countries, specific projects, firms, and industries face noticeably different risks (Alon *et al*, 2006:26). The risk exposure of each company therefore varies; what one firm may deem a political risk, another firm may not. Political risk definitions should therefore accommodate these differing circumstances. A distinction can therefore be drawn between macro and micro political risk (or industry-specific risk). Both can originate from either internal or external sources. Internal sources include those processes or events from inside the country, such as economic conditions and government policies. External sources, such as conflicts between countries and international sanctions find their origin outside the host country.

Macro political risk is broader, affecting most or all industries. It can be caused by governmental, societal or economic factors. An example of macro political risk would be civil wars or shifts in governmental power. Micro risk are however more prevalent. Alon and Herbert (2009:129) assert that the effects of micro-risk on a firm are more “substantial and unpredictable, and more frequent and widespread”. Because micro risk affects a certain industry, firm or project, it is much more specific in nature in comparison to macro risk. The level of analysis here is inclusive of the host country, along with elements relating to project features, the industry where a firm operates and the firm’s nationality and relationship with the host country (Alon & Herbert, 2009:127).

Brink (2004:13) claims that macro and micro risks cannot effectively be separated from each other and therefore a political risk analysis should include both. A number of authors also indicate the utility in conducting a micro-risk analysis. Such an analysis should also be mindful of the resources and capabilities of the specific firm, as firms have various resources which may impact the effect of certain political risks and their capability in dealing with these risks (Frynas & Mellahi, 2003:562). A successful business strategy requires the firm to perform an active part in shaping the arena they operate in, and “not just playing the game they find themselves in” (Brandenburger & Nalebuff in Frynas & Mellahi, 2003:563). Firms and industries can therefore manage political risk to work to their advantage.

2.4.6 Regionalism

Globalisation and the increase in international capital flows diminished the importance of the nation-state, and facilitated the rising prominence of the regional unit in geopolitics (Lambrechts *et al*, 2010). Fawn (2009 cited in Söderbaum, 2013:9) supports this claim when stating that "regionalism and regional organisations are now everywhere across the globe and are increasingly fundamental to the functioning of all aspects of world affairs". It is often argued that the rise of regionalism is driven by the inability of global institutions to adequately address current challenges and the realisation amongst states of the need to cooperate to tackle new global challenges.

A lack of consensus is indicated around the definition of a region, as there is considerable disagreement on what exactly constitutes a region. At the simplest level, regions are frequently defined as groups of countries in the same geographic space. This can be problematic however, as it is unclear where one region ends and another begins. For example, the UN Statistics Division considers Mozambique as part of East Africa, yet for geopolitical reasons, the country is also considered a Southern African state. To demarcate regions based on geography alone, is very arbitrary and can cause confusion.

Most researchers however agree that physical proximity alone does not constitute a region. Additional criteria are also at play. Russet (1967, cited in Mansfield & Solingen, 2010: 146) defined a region based on several factors, inclusive of geographic proximity. He delineates regions based on social and cultural homogeneity, shared political attitudes and political institutions and economic interdependence. Thompson (1973, cited in Mansfield & Solingen, 2010: 146) similarly argues that regions comprise states that are geographically proximate, interact extensively and share perceptions of various phenomena. SADC as a region conforms to this criterion.

In addition to combatting common challenges, the overarching objective behind creating regional blocks, is to foster economic cooperation and integration amongst member states. As countries become increasingly politically and economically integrated, the potential for a contagion or spill-over effect to occur from one country to another is realised (Lambrechts *et al*, 2010:61).

With the rise of regionalism, countries are increasingly exposed to political risk factors outside their domestic sphere with the possibility that the consequences thereof might affect them in the same manner as if it originated within their borders. Statistical analyses demonstrated regional clustering of civil war, indicating bordering countries with significant internal political strife are significantly more likely to experience conflict or political tensions related to these events (Salehyan and Gleditsch, 2006).

A clear example of this is the Arab Spring of 2011. The Tunisian revolution or "the Jasmin Revolution" was the first popular uprising in the Middle East North Africa (MENA) region, which toppled an established regime and spread throughout the region in defiance against other regional authoritarian regimes (Sidamor, Lemtaouch and Bensouici, 2015:694). These revolutions in Tunisia and Egypt created a contagion effect, inspiring a series of uprisings and subsequent developments, especially in Syria and Libya (Matesan, 2012:27).

The civil war in Syria indicates the transmission effects of political instability in one country in a region with region-wide effects. Violent internal conflict brought the country's economy to a standstill, while the exodus of refugees placed a huge burden on Jordan and Lebanon (Spong, 2014). The advance of ISIS already has a direct impact on regional and international business in the Middle East, with a rising number of airlines changing their flight routes to avoid Iraqi airspace due to security concerns (Spong, 2014). The transmission effect of political and economic crises from one country to another in a region was also seen in 2014, when tensions between Russian and Ukraine escalated and resulted in a decline in confidence levels and activity in Germany. Russian aggression in eastern Ukraine impacted regional markets over the threat of this tension expanding into a wider eastern European conflict (Murray-West, 2015).

Numerous explanations are advanced for this increased transmission effect between countries in the same region. Firstly, there is the „demonstration effect", whereby domestic actors and populations feel emboldened or inspired to update their beliefs on the efficacy and desirability of challenging their own government (Salehyan and Gleditsch, 2006:2). Conflict diffusing through a series of externality effects, indicates another formulated reason. For example, civil unrest in one country may cause a decline in trade and investment throughout the region, leading to deteriorating economic conditions, in turn leading to conditions making conflict onset more likely.

Against the background of ever intensifying regionalism and with the abovementioned security concerns related to political and economic integration, this study advances the position that it is crucial to study political risk analysis with the regional unit in mind.

2.4.7 Risk in the agricultural industry

Risk is underlying and pervasive in the agricultural industry and has potentially adverse results for producers and consumers alike. It is a unique sector in that it is dependent on numerous variables, ranging from biological- and climatic factors to vulnerability to adverse natural events (Girdžiūtė, 2012). Lower-income and highly agriculture-dependent countries, such as Mozambique and Zambia, are especially susceptible to agriculture-related risks. "In these countries, there is an urgent need to better assess risks, understand the interconnections between different types of risk, and improve agricultural risk management strategies" (World Bank, 2016:xi).

The World Bank recognises three classifications for risks faced by agricultural stakeholders: production, market and enabling environment risks (World Bank, 2016). Production risks refer to those uncertainties regarding the natural growth processes affecting the volume of production and quality of agricultural commodities. They range from non-extreme weather events (such as irregular rainfall patterns to low temperature) to infrequent but catastrophic weather events (such as droughts, floods and cyclones). Agricultural yields are also negatively affected by biological phenomena such as the outbreak of pests and diseases.

Risks that relate to challenges influencing the price, quality, availability, and access to products and services are associated with market risks. One would typically consider factors, such as exchange rate- and interest rate volatility and default risk when considering market risks affecting the agricultural industry. While these risks materialise at the market level, they have backward linkages to farmers, and thereby influence several different stakeholders. Although these risks are predominantly economic in nature, they also comprise a political element concerning political processes and decisions also determine and shape these market risks.

The United States Development Agency (USDA) and Food and Agricultural Organisation of *the United Nations* (FAO) make a distinct separation of the factors categorised as market risks by the World Bank[8]. These risk factors are further divided into price risk and financial risk. Price risk refers to the uncertainty surrounding the prices for inputs into the agricultural production system, and the prices producers can expect to receive for agricultural commodities. This risk depends the commodity being produced. The FAO elaborates further on the determinants of price risk. The uncertainty of future market prices hinges on the supply and demand of that commodity, and the cost of production (Kahan, 2013:6).

These factors are therefore all beyond the control of the individual producer.

A combination of factors determines the supply of a product. These include the cumulative production decisions of producers and climatic conditions. Demand for agricultural commodities, conversely are influenced by the consumer market preferences, the strength of the general economy (which is impacted by macroeconomic variables and current economic conditions), and the availability and prices of substitute products. Cost of production is affected by input costs and yield, making it highly volatile. Combined, these two factors pose a serious source of risk. Although price movements can exhibit seasonal or cyclical trends, the market price can be affected by unexpected changes in supply or demand.

[8] Hoag (2010) also identifies five main sources of risk, namely, yield (production) risk, financial, political/personal, price and environmental risk. There is some divergence in the literature on the number and naming of the classifications of risk in the agricultural industry, however, the same type of risks have been identified.

Financial risk occurs when capital is borrowed and an obligation created to repay debt. This is a micro-level risk which varies according to the financial position and profile of the producer or investor. Factors, such as rising interest rates and the availability of or willingness of lenders to grant credit are some of the indicators of this risk (Kahan, 2013). The ability of the producer to generate income to service and repay the debt is therefore another risk factor.

Enabling environmental risks encompasses those risks relating to sudden (unexpected) changes in government or business regulations, trade restrictions, conflict, and corruption which could lead to financial losses for agricultural stakeholders. These risks can cause changes in yield quantity and quality, with the potential to lead to disruptions of goods, services, and finance (World Bank, 2016).

The FAO and USDA categorise enabling environmental risks as institutional risks. These organisations offer a broader conceptualisation of these risk indicators. While their conceptualisation recognises that government policy affects farming (such as subsidies), risk indicators are not only confined to governmental policies but expanded to include provision of services from institutions, supporting farming (Kahan, 2013:8). These institutions range from banks, cooperatives, marketing organisations and government extension services. Decisions by policy-makers and mangers on subsidies, food quality regulations for export crops, are examples of institutional risks taken by government that can have a major impact on the commercial agriculture business.

As indicated above, risks are not isolated. Production, marketing, financial, institutional and human risks exist in most agricultural enterprises. Erratic climatic conditions (environmental risks) will have a direct impact on the quality of soil and crop growth which will subsequently affect crop yields (Hayward, 2016:34). This is turn will fuel price risks, the risk in price variability that farmers face in selling agricultural commodities and the price of inputs (Browne *et al*, 2013 cited in Hayward, 2016:34).

The ability to repay debt depends on levels of production and prices received for commodities sold. Financing and production in turn depends on the access to capital. The different types of risks farming business face are therefore interlinked through a combination of economic, natural and socio-political uncertainties (Harwood, Heifner, Coble, Perry & Somwaru, 1999). These risks need to be considered as combined to obtain an image of the risk profile.

Beyond being interrelated, these various categories of agricultural risks can also have the same source, despite manifesting differently. While the extant literature on agricultural risks distinctly categorises the risks separately, little attention is given to some risks sharing the source. Economic or market risks are often driven by political decisions. This is especially the case in developing countries where politics matter as much as economic factors. Macroeconomic variables are determined by and influenced by economic policy which in turn is affected by actors and circumstances in the political environment. Market risks should therefore not be taken at face value as these risks are not impervious to the dynamic forces in the political arena. Confidence in the market (macro-economic arena) is determined by credibility and dependability of public policy and institutions.

The literature from agricultural economics does not fully encapsulate political risk. A conceptual schism exists between indications of political risk and what it encompasses in the academic field of political risk analysis and international business literature and agricultural economics. Alike earlier conceptions of political risk, it limits political risk to adverse government decisions. It also does not pay sufficient attention to an evolving definition of political risk to include a wide array of political and societal actors, decisions and events. This is indicative of the need to synthesize the literature to bring in line how political risk is conceptualised in International Business (and Political Risk Analysis) and agricultural studies.

2.5 CONCLUSION

The objective of this chapter was to lay the theoretical groundwork for the rest of this research. It focused on the primary theory of political risk, namely decision-making and problem-solving, considering agricultural risks. Core concepts were also clarified in this chapter, such as, risk, country risk, political risk and analysis, industry-specific risk, and regionalism. This chapter also explored the various types of agricultural risks. The focus on agricultural risks highlighted the inter-linkages between risks, indicating that some risk factors share the same source. It also highlighted the disjuncture between how political risk is perceived in the academic field of political risk analysis and in Agricultural Business literature. Political risk is still conceived as detrimental governmental action and was not updated to encompass those actors, events and processes indicating potential sources of political risk. Chapters 3 and 4 offer the contextualisation and extrapolation of political risk factors for Mozambique and Zambia, respectively in order for a holistic picture of political risk in the agricultural industry in Southern Africa to be obtained.

CHAPTER 3: COMPARATIVE CONTEXTUALISATION

3.1 INTRODUCTION

Chapter 1 indicated the research objective to extrapolate key political risk factors in the agricultural industry in the Southern African region. Mozambique and Zambia, as southern African states, possessing significant agricultural industries with long term commercial viability and opportunity for expansion, serve as suitable case studies. The focus of this chapter is to offer a comparative contextualisation between Mozambique and Zambia. A historical contextualisation of the southern African region is provided, where after the two case studies are discussed. A historical analysis of the political environment and an overview of the agricultural industry of each country will be presented.

3.2 SOUTHERN AFRICA

3.2.1 Background

Southern Africa mainly denotes the states of the African continent's southernmost region. States in this region are further indicated by their membership to the Southern African Developmental Community (SADC). The region therefore comprises of:

- Angola
- Botswana
- the Democratic Republic of the Congo (DRC)
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- Seychelles
- South Africa
- Swaziland

- Tanzania
- Zambia
- Zimbabwe.

Figure 3.1 represents the map of the Southern African region with the political borders.

Figure 3.1: Southern Africa

Source: SADC, 2012 http://www.sadc.int/member-states

Southern Africa is a socio-economically and culturally diverse region, spanning 9.27 million km^2 with an estimate population numbering 292 million inhabitant (SADC, 2012a). Its geography varies from forests and grasslands to deserts. This variety in climatic conditions in the region allows for the production of various crops and agricultural commodities. It is estimated that 70% of the region’s population “depends on agriculture for food, income and employment (SADC, 2012c). Subsequently, the region’s economic growth, social stability and food security is highly dependent on this sector.

Economically, there are also considerable structural differences amongst the SADC countries which stems from several factors. In terms of population size, Lesotho and Swaziland have fewer than 2 million inhabitants whilst the DRC‟s population number at 77 million (World Bank, 2017). Some nations in the region contain large deposits of various precious minerals (such as diamonds like Botswana, Namibia and South Africa), whereas others (such as Malawi and Mozambique) are primarily reliant on agricultural exports.

The states of Southern Africa are further divided between coastal and landlocked states (including Botswana, Lesotho, Malawi, Swaziland, Zambia and Zimbabwe). Notwithstanding that the states are at differing stages of economic development and size, the economies of Southern Africa collectively, is the strongest on the continent, with the potential for future collective growth and development (Bauer & Taylor, 2005:6-7). Southern Africa is Sub-Saharan Africa's (SSA) economic powerhouse as the region contributes the biggest share to the continent's total economy. This sub region is also politically characterised as unipolar which is economically and politically centred on South Africa as the regional power.

3.2.2 Historical contextualisation

The contemporary states of southern Africa share a common colonial and postcolonial history (Bauer *et al*, 2005:3). Most of the region's territory fell under British imperial domination although France, Belgium, Portugal and Germany also established colonial rule over some countries. While Britain followed a gradual approach to decolonisation, Portugal desperately retained possession of its southern African colonies. Independence was only granted after guerrilla wars were waged and a military coup in Portugal weakened its ability to maintain control (Thomson, 2004:34). Despite the division between Francophone, Lusophone and Anglophone countries in the region, the region is politically, socially and economically intimately linked.

Political and social interconnectedness in the region was firstly fostered by the region-wide migrant labour system. With the discovery of gold and diamonds in the late 1800s, colonial powers initiated a migrant labour system which facilitated the movement of workers throughout the region to the mines of South Africa (Bauer *et al*, 2005:5). This cross-border movement of the region led to increased interaction amongst peoples. Political and social affinity in the region were further bolstered by the various liberation struggles in southern Africa. In the quest for liberation from white minority-rule, several liberation leaders were exiled and forced to spend long periods in neighbouring countries.

Countries in the region who obtained their independence first, such as Zambia, Mozambique and Angola, opened their borders to these movements. During the same time of liberation struggles, these independent countries formed the Frontline States (FLS), a political body who sought to counter Apartheid South Africa in a bid to end White minority rule. These experiences contributed to the possibility of creating a common southern African future.

SADC traces its origins from the Southern African Development Co-ordination Conference (SADCC) in 1980 (McGowan, 2009:325). The main purpose of this political grouping was to sustain the FLS-strategy of isolating Apartheid South Africa and attempting to reduce and free its member states from their economic, transportation and political dependence on the country. It also endeavoured to coordinate foreign-aid and investment into the region. The SADCC however failed in their goals, as the region became more dependent on South Africa in the 1990s than in 1980s.

Following Namibia's independence and the unbanning of South African liberation movements, regional priorities changed. Failure to achieve its goals and the shift in regional priorities consequently, prompted SADCC leaders to negotiate a new treaty establishing the SADC in Windhoek, Namibia on 17 August 1992. The SADC secretariat is based in Gaborone, Botswana. The formal and legally binding treaty of SADC set more ambitious goals than its predecessor and strives to promote increased regional economic integration, peace and security, and democracy (McGowan, 2009:326).

Although colonial rule in Southern Africa concluded by the 1980s, it left a profound socio-economic impact on the region. Arbitrary boundaries and spatial configurations resulting from the partition of the continent by colonial powers, “created problems of scale for smaller countries and market access for landlocked ones” (Du Plessis, 2016:51). Other adverse economic legacies of colonial rule were that of underdevelopment of human resources and over-reliance on the primary sector and exports (Thomson, 2004:22). Most southern African countries today remain vulnerable to commodity price volatility and depend on exports.

3.3 MOZAMBIQUE

3.3.1 Background

The state of Mozambique, officially known as the Republic of Mozambique, is located in Southeast Africa. This coastal country comprises a land area of 799,380 km^2 and is bordered by the Indian Ocean to the East and shares land borders with Tanzania, Malawi, Zambia, Zimbabwe and Swaziland (Figure 3.2). In terms of population size, indicating 24 million, the country is considered medium sized by global standards.

Concerning the organisation of the state, Mozambique comprises 10 provinces with its capital and largest city, Maputo, holding the status of a province. The country is further classified as a unitary semi-presidential republic with a highly centralised polity owing to its multitier political architecture. The president, head of state, is at the apex of the national administrative power structure and appoints the head of government (a prime minister) combined with the ten provincial governors.

Figure 3.2: Republic of Mozambique

Source:http://ontheworldmap.com/mozambique/mozambique-political-map.html

Contemporary, Mozambique is wrought with multiple socio-economic challenges. Poverty is widespread despite impressive economic growth recorded after the civil war. Persistent threats to state and government legitimacy are social strains and disease, such as HIV/AIDS, corruption amongst party elites and income inequality. Mozambican society is ethnically diverse and further characterised by religious plurality. The socio-political climate has increasingly liberalised, following a history of statist control, although civil society is not sufficiently robust to act as a watchdog against state power abuse. Compared regionally, civil society organisations are less prominent. Several non-governmental organisations though, are active in the human rights space with a limited amount of independent media outlets.

The political climate of the country is volatile as the country's main political opponents, the ruling Frelimo government and politico-militia movement, Renamo, lapse into periods of tension and overt violence. Mozambique still finds itself in a transitional process of obtaining democratic stability and economic growth as it grapples with the legacies of war and failed socialism.

3.3.2 Historical contextualisation

The historic political context of Mozambique concerns occupation, a protracted violent struggle for liberation and an ensuing civil war after independence. Prior to Portuguese colonialism, which lasted over four centuries since the 1500s, the state was used as a trading post for slaves and minerals by the Arabs. Portuguese settlers later extended the use of the state from coastal trading to include mining activity in the interior (Bauer *et al*, 2005:113). Mozambique was therefore from the outset "a transit and service-based economy" (Rupiya, 1998:10). Even though the Portuguese arrived in 1534, the Portuguese government only exerted direct control over Mozambique in 1932. Prior to this, economic control of Mozambique was mainly exercised by foreign companies to assist the colonial power in financing the colony.
Abrahamsson and Nilsson (1995:17) attributed this to Portugal's political and economic inadequacy at the time.

The Portuguese colonial legacy had a destructive impact on the country. In addition to extremely limited investment in human and physical infrastructure, Portugal was reluctant to relinquish control over its colonies. Cessation of control of its overseas territories, only commenced, following the toppling of Salazar's fascist regime by the military (Bauer *et al*, 2005:115). As throughout the rest of the region, colonialism was heavily resisted. Mozambican resistance against the colonial power was led by the Front for the Liberation of Mozambique (FRELIMO). Established in 1962 in Dar Es Salaam, Tanzania, the movement came into being through a merger between three exile-based Mozambican nationalists organisations – the União Nacional Africana de Moçambique Independente (UNAMI), the Unão Democratica Nacional de Moçambique (UDENAMO), and the Mozambique African National Union (MANU) (Hoile, 1994:29). The organisation commenced with their armed liberation struggle in 1964 and quickly achieved success by capturing certain areas in the north of the country.

With the eventual attainment of independence, FRELIMO governed according to the Marxist-Leninist ideology and attempted to establish a Mozambican socialist state and society. The party increasingly embraced totalitarianism and ruthlessly targeted opposition party members (Hoile, 1994:26) subsequently culminated into creating a one-party political system (Sidaway & Simon, 1993:15). Frelimo‟s programme for dramatic change in transforming social and economic relations along Marxist lines played a role (Alexander, 1994: 182) included the nationalisation of five main economic sectors:

- Land.
- Banking.
- Housing.
- Health-care.
- Education (Abrahamsson, 1995:28).

To realise this development strategy, Frelimo‟s leadership decided that strong centralisation of decision-making was necessary. The country, however soon descended into civil war. There were several precipitating factors to civil strife. Inheritances of the postcolonial politics contributed to domestic tension and instability (Igreja, 2008:542). "In addition to the difficulties of integration associated with geographical and cultural diversity, Mozambique under Frelimo displayed all the structural weaknesses of the African state to an extreme degree, with an acute lack of qualified cadres, weak infrastructure and hence poor administrative control" (Hall and Young, 1997: 65). These factors cemented and intensified ethnic fragmentation.

Several of Frelimo‟s policies antagonised sections of the population, causing domestic discontent. Some of the most notable triggering factors of internal instability, were the disastrous economic policies, including "Soviet-style collectivization of agriculture, forced resettlements and the establishment of inefficient state farms" (Alden, 2001:7; Bowen, 2000:10-12).

A further driver of anti-Frelimo sentiment and resentment against the new state, was driven by the proposed elimination of the peasantry's (constituting over 80 per cent of the population) traditional beliefs and established hierarchies (Alden, 1997:42). A further catalyst to civil war was Frelimo‟s zealous embracement of totalitarianism. The non-Frelimo Mozambican political society was almost destroyed, as Frelimo attempted to secure political hegemony through intimidation, torture, and detention (Venâncio & Chan, 1998:6). This led to the choice of militarily opposing the Frelimo government.

External forces also played a role in the festering civil war in Mozambique. Frelimo‟s military and diplomatic support to many liberation movements in the region, including the African National Congress (ANC) in South Africa, and the Zimbabwe African National Liberation (ZANLA) in Zimbabwe, accounted for external involvement in the destabilisation of the country[9]. Renamo, known until 1981 as the Mozambique National Resistance (MNR), was a political and military opposition movement in Mozambique (Bauer *et al*, 2005:116). Despite some disagreement amongst scholars over the origins of the organisation, most opine that it emerged from external support. Established by the Rhodesian Central Intelligence Organisation, (in reaction to Frelimo‟s extensive support of ZANLA) and thereafter propped up financially and militarily by Apartheid South Africa, its purpose was to destabilise and sabotage the Frelimo government (Bauer *et al,* 2005:116). Despite its foreign origins, Renamo managed to garner domestic support through exploiting the anti-Frelimo sentiment in some provinces and enlarging their constituency amongst the rural populace (Venâncio *et al*, 1998:6).

The civil war left a trail of mass destruction and suffering. The destabilisation of the country manifested mainly in three ways. The Apartheid regime in South Africa, through its regional policy of destabilisation, weakened Mozambique economically through limiting their recruitment of Mozambican mine workers and reducing freight use of the country's transit railways and ports (Abrahamsson *et al*, 1995:65; Venâncio *et al*, 1998:5). Military destabilisation, led by Renamo, was directed at two primary targets. The first was critical economic infrastructure. The bombing of the oil port in Beira in 1982 and the attacks on strategic bridge connections and strikes on

[9] It is claimed that the Rhodesian intelligence agency funded and established RENAMO due to FRELIMO's extensive support to ZANLA.

railway links with neighbouring countries are some examples (Abrahamsson *et al*, 1995:65). The objective was to cripple an already weakened Mozambican economy and to subvert the Frelimo‟s capacity to govern.

Social infrastructure in rural areas formed the second goal of sabotage. These targets were mainly schools and health-care institutions with the main purpose of instilling fear and chaos in the social psyche. “This type of destabilisation has also been directed against society’s social networks” (Abrahamsson *et al*, 1995:65). Beyond the maiming of people, the psychological damage inflicted on Mozambican society was further exacerbated by the “use of child-soldiers in warfare and the kidnapping of women for the purpose of becoming sex-slaves for soldiers” (Chingono, 2015). It is estimated that 1.7 million Mozambicans fled to neighbouring countries, whilst approximately 4.3 million were displaced internally (Seibert, 2003:254).

After 17 years, the Mozambican civil war came to an end in 1992 when the Frelimo government and Renamo negotiated and signed the Mozambican General Peace Accord in Rome (Hoile, 1994:1). The climate for negotiations were partly created by the lack of natural resources to sustain the conflict (Bauer *et al*, 2005:117). Additionally global political and regional shifts led to diminished interest by external actors in supporting or prolonging the conflict (Bauer *et al*, 2005:117). The abandonment of Marxist-Leninist economic policy by Frelimo gave further impetus to the imminent peace deal. To effect these changes, a new multi-party democratic constitution was promulgated in 1990. Four years later, the first democratic election was held, which saw Joaquim Chissano, former president and Frelimo member, elected as President with the agreement of Renamo (Reisman & Lala, 2012; Mawson, 2011).

3.3.3 Period following civil war

Following the conclusion of the civil war, Mozambique indicated the most aid dependent state globally. The physical destruction caused and the resulting humanitarian crisis, weakened the state to such an extent that GDP per capita in the country was the lowest in global rankings in the mid-1990s (Gastrow & Mosse, 2002:45). With peaceful elections signalling the transition to multi-party democracy, the country moved to a more market-based economy (World Bank, 2009). The country recorded exponential economic growth rates in the post-war period, when GDP per capita of US$150 in 1990/92 dramatically increased to US $370 in 2008. Sustained growth rates of up to 8% per annum since the end of the civil war from 1997 through 2001, were recorded (Bauer *et al*, 2005:13). This growth was mostly propelled by exports, and improvements in the transport, agricultural and construction sectors.

Other notable socio-economic advances recorded, were the increase of primary school enrolment rates and declines in infant and child mortality rates, increased access to safe water and improvement in sanitation services (World Bank, 2009). Despite the impressive progress in the health and transport sectors, the population remained vulnerable. The total number of fatalities of the war was approximated at one million with five million displacements (Bauer *et al*, 2005:135). With the return of refugees and internally displaced people, instability soon followed due to quarrels over land ownership and the government"s lack of a programme for the resettlement of refugees. There was also the added social challenges of the disarmament, demobilisation and reintegration of ex-combatants, and the unregulated circulation of weaponry. The proliferation of small arms both within the country and the region continue to contribute to rising crime, posing a constant danger to the fragile peace and stability in the country.

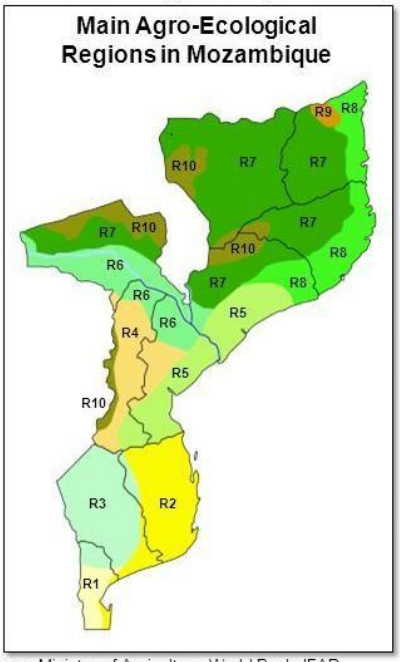
3.3.4 Mozambican agricultural industry

Agriculture remains a crucial driver of economic growth and the mainstay of the Mozambican economy. Approximately 80% of its population depends on it for their living, with 90% of agricultural activity comprising subsistence farming. The agricultural sector in Mozambique is bestowed with "labour, availability of land at low opportunity costs…and easy access to regional and international markets (KPMG, 2009:7). According to the Mozambican government, agri-business in the country is advantageous regarding agro-climatic conditions, advantageous geographic position to Asian and Middle-Eastern markets, and linkages to opportunities for large-scale project initiatives (Ministry of Agriculture, 2012:3).

Roughly 10% of the total land area available for agriculture in the country, is currently cultivated. Agriculture is therefore not commercialised on a large-scale, leaving considerable room for improvement (Sanchez, 2015). The agricultural sector in Mozambique is further characterised by the dominance of smallholder farmers who constitute 90 per cent of this industry (Suit & Choudhary, 2015:5). Most of these smallholder farmers cultivate small plots of land, varying between 0.5 to 1.5 hectares, using "limited inputs and mechanisation". The Mozambique Agricultural Census (TIA) surveys estimate the total farmer population to number at 3.8 million (Suit *et al*, 2015:5).

The country's favourable agro-climatic conditions make it suitable for a broad and diverse range of agricultural products. Three distinct macro-ecological zones are evident in the country. These diverse agro-ecological zones are presented in Figure 3.3.

Figure 3.3: Agro-Ecological Zones of Mozambique



Region	Part of Mozambique	Ag. Commodities Produced
R1	Inland Maputo and south Gaza	Maize, cowpea, groundnut, cassava, sweet potato, banana
R2	Coastal region south of the Sabi (Save) River	Maize, sugar, cowpea, sweet potato, groundnut, cassava
R3	Center and north of Gaza, and west Inhambane	Cattle, goats, rice
R4	Medium altitudes of central Maputo	Maize, sorghum, cassava, cowpea
R5	Low altitudes of Sofala and Zambezia	Rice, cotton, cashew
R6	Semi-arid region of Zambezi Valley and Southern Tete	Sorghum, millet, sugar, rice
R7	Medium altitudes of Zambezia, Nampula, Tete, Niassa, and Cabo Delgado	Maize, soybean, sorghum, cassava, cowpeas, groundnuts, rice, sesame
R8	Coastal litoral of Zambezia, Niassa, and Manica	Banana, cassava, millet, rice, cashew
R9	North interior of Cabo Delgado	Maize, sorghum, cowpeas, cassava, sesame
R10	High altitudes of Zambezia, Niassa, and Manica	Soybean, maize, common beans, potatoes, rice

Source: Ministry of Agriculture; World Bank, IFAD

Figure 3.4: Agro-Ecological Zones of Mozambique
Source: World Bank, 2006

These distinctions, of the northern, central and southern zones are based on conditions such as vegetation, soil, altitude, climate, and farming systems. The north offers favourable conditions for the cultivation of cotton, cashews, sorghum, maize, cassava, groundnuts, and millet, while the central region is known to produce bananas, citrus, sugarcane, vegetables, sorghum, cotton, maize, cashews and rice. Crops in the southern region include groundnuts, maize, cowpeas, sugarcane, vegetables, cashews, and rice (Mucavele, 2000, cited in Suit *et al,* 2015:6). The macro-ecological zones are further sub-divided into 10 diverse agro-ecological zones, ranging from arid and semi-arid in the south and southwest, with sub-humid zones in the centre and north, and humid highlands in the central provinces (United Nations Food and Agricultural Organisation, 2010).

3.3.5 Summary of main points related to the Mozambique case

The political landscape of Mozambique is informed by its history of wars for independence and its civil war noted for its brutal acts of atrocity. The nature of the Frelimo regime and its political project was crucial driver of domestic discontent and precipitated civil war. Through their attempts to attain political hegemony, they relentlessly clamped down on oppositional political movements and those who were perceived to be against their new socialist state model. The country had to completely rebuild its infrastructure and transition from a Marxist-style command economy following 20 years of civil war. The „socialisation of the countryside" programme, *socialisação do campo,* envisaged state-run production of agriculture based on the Soviet model, whilst government-resettlement programmes. "The inheritance of a brutal past and the failure to address its legacy threatens to subvert recent post-independence "political gains" (Alden, 1997:40). The country has a sensitive history concerning land and agriculture, in addition to possessing a fragile political system.

3.4 ZAMBIA

3.4.1 Introduction

Zambia (officially the Republic of Zambia) is a landlocked country sharing its border with eight other nations in the region. Figure 3.5 depicts the political map of modern day Zambia with its neighbouring countries; the Democratic Republic of the Congo (DRC) to the north, Angola and Namibia to the west, Botswana, Mozambique and Zimbabwe to the south, and Malawi to the east. Its population numbers around 15 million (United Nations Statistics Division: Zambia, 2015) where 60% are living in rural areas. While the mainstay of the Zambian economy is copper mining, agriculture continues to be a significant contributor at slightly less than 20% of GDP and providing employment to over 70% of the population. In terms of the organisation of the state, Zambia holds a presidential system where executive power is vested in the President, who is both the head of state and the head of government. Its capital city, Lusaka is located in the Lusaka Province, one of 10 provinces in the country. Each province is headed by a minister, appointed by the President.

Figure 3.5: Republic of Zambia

Source: http://www.ezilon.com/maps/africa/zambia-maps.html

Zambia comprises several political and socio-economic challenges, with two-thirds of its population still living in poverty (BBC, 2017). The country has a multi-cultural society, characterised by different racial and ethnic groups and religious groupings. “More so than race, ethnicity might be expected to be major fault line in contemporary Zambian society, given the sheer number of ethno linguistic groups; amongst these, the Bemba, Tonga, Lozi, and Nyanja-speaking people are the most numerous and together account for over 50 per cent of the population. Zambia has seventy-three ethnic groups" (Bauer *et al*, 2005:50-51).

The country experiences high levels of unemployment with most of the population possessing a weak socio-economic status, despite strong economic performance in recent years. This economic growth was led by increased mining output, due to the large investment in the mining sector, construction, agriculture and a growing tourism sector (African Health Observatory, 2017). The World Bank projects an improved growth rate of 4% in 2017 (World Bank, 2017b).

3.4.2 Historical context

Zambia, formerly known as Northern Rhodesia, was administered by the British South Africa Company (BSAC) after which Britain established control in 1889, using a system of indirect rule which left power in the hands of local authorities. In stark contrast to the rest of the region, Zambia experienced a relatively peaceful transition to independence from the British imperial power. By managing to avoid the war and upheaval that has marked much of Africa's post-colonial history, the country earned itself a reputation for political stability (BBC, 2017).

Three fundamental systemic political changes occurred in Zambia, following its independence. The country embarked upon its independence in October 1964, under the leadership of its first president, Kenneth Kaunda. The First Republic, which lasted from 1964 to 1972, was a democratic system in which one party, the United National Independent Party (UNIP) was the dominant party and major political force (Erdman *et al*, 2003:3). UNIP‟s dominance was predicated on a „maximum coalition‟ of ethnic and social groups (Donge, 1995:195, cited in Erdman *et al*, 2003:5). To maintain unity within this coalition, an intricate system of political patronage was created wherein key party and government positions were distributed. Growing dissidence within the UNIP by the United Progressive Party (UPP) and the threat to coalesce with the major opposition party, the African National Congress (ANC), provided the reason for the declaration of a one-party state in 1968 (Erdman *et al*, 2003:3-4).

Subsequently, the Second Republic (1983-1991) which indicated creating a one-party state by Kenneth Kaunda, was proclaimed a „one-party participatory democracy". While the system provided for regular parliamentary and presidential elections, it was on limited competitive basis as candidates would firstly be approved and nominated by the UNIP central committee. A further notable characteristic of the Second Republic, was the dominance of the presidency rather than the party (as is the case in a one-party state) - the presidency increasingly became the locus of power in the state (Gertzel, 1984:102). Ensuing this presidential dominance, the administrative capacity of the bureaucracy declined and corruption increased (Gertzel, 1984:104; Erdman *et al*, 2003:4).

In 1991, political reform occurred which re-established political pluralism due to an economic crisis which weakened state patronage (Burnell, 2001:2; Gewald, Hinfelaar & Macola, 2008:2). The democratic elections in 1991 marked Zambia's transition from authoritarian rule to multiparty democracy and the peaceful transfer of power. Subsequently Frederick Chiluba, leader of Movement for Multi-party Democracy (MMD) won the first multi-party elections in over twenty years. The country was however only nominally democratic as the constitution from the previous regime was left unchanged, leaving the presidential system with vast powers as before (Bauer *et al*, 2005:61). The Chiluba administration demonstrated several continuities with the single-party era. With the imposition of a state of emergency in March 1993, Zambia spiralled into renewed authoritarianism. The MMD parliament monopoly was finally broken in 2001 as a result of a breakdown in party discipline and personal loyalty, together with protest by civil society after Chiluba sought a third term as president, despite earlier pledges to only serve two.

The following presidential election was narrowly won by Levy Mwanawasa. Unlike his predecessors, President Mwanawasa was constrained by parliamentary opposition (Bauer *et al*, 2005:75-76). The Mwanawasa administration had a detrimental impact on the economy as he presided over a downward trajectory in economic development. Mwanawasa also nullified all development agreements (DAs) entered by the previous government with mining companies, which branded the country as hostile to foreign investment. As a result, foreign direct investment stopped flowing to the country and the World Bank suspended aid considering corruption in the health sector in 2007 (Zambia Reports, 2014). The Mwanawasa administration left the country in a much worse position, thus continuing the pattern of decline begun in 1970s (Bauer *et al*, 2005:47).

The country embraced seven general elections, including a presidential by-election which saw four peaceful presidential successions during this period. Since independence, Zambia existed under four constitutions (with the development of a fifth one in motion) over a period of 49 years. This means that the country had on average of a new constitution every ten years (Simutanyi, 2013:4-5). This extremely high and uncommon turnover rate of constitutional change can be attributed to constitutions being used as tools to maintain and expand the executive power and serve personal interests. It can be witnessed throughout the country's political history that the various Constitutions have granted considerable discretionary authority in the presidency while stripping power from other arms of government.

3.4.3 Agriculture in Zambia

Zambia is endowed with a large land resource base of 42 million hectares of which only 1.5 million hectares is cultivated every year. The country possesses abundant water resources for irrigation and contains 40 per cent of the total water sources available in Central and Southern Africa (Zambian Development Agency, 2011). Given the vast resource endowment regarding land, labour and water, Zambia holds significant potential for the expansion of its agricultural production capacity.

A further demonstration of the importance of this sector, is its contribution of approximately 19% to GDP and through its employment of nearly three quarters (85%) of the population. Domestic agricultural production is comprised of crops such as maize, sorghum, millet and cassava while exports are driven by sugar, soybeans, coffee, groundnuts, rice and cotton and horticultural produce. The Zambian territory encompasses 75 million hectares (752,000 km^2), out of which 58 per cent (42 million hectares) is classified as medium to high potential for agriculture production. Currently only 15 per cent of this land is under cultivation. Agricultural sector performance has however been hampered by lack of good infrastructure, inadequate credit facilities, inadequate extension services, poor agricultural marketing systems, and droughts in some years (SADC, 2013:352).

Agricultural producers in the country can be categorised into small scale, medium and large-scale farmers. The country benefits from the production of a variety of crops due to its varying climatic conditions and soil types.

The country's total land area of 75 million hectares is divided into three major agro-ecological regions, primarily based on rainfall, soil quality and other climatic characteristics (Chikowo, 2017; Zambia Development Agency, 2011:45). Figure 3.6 depicts the three major agro-ecological regions.

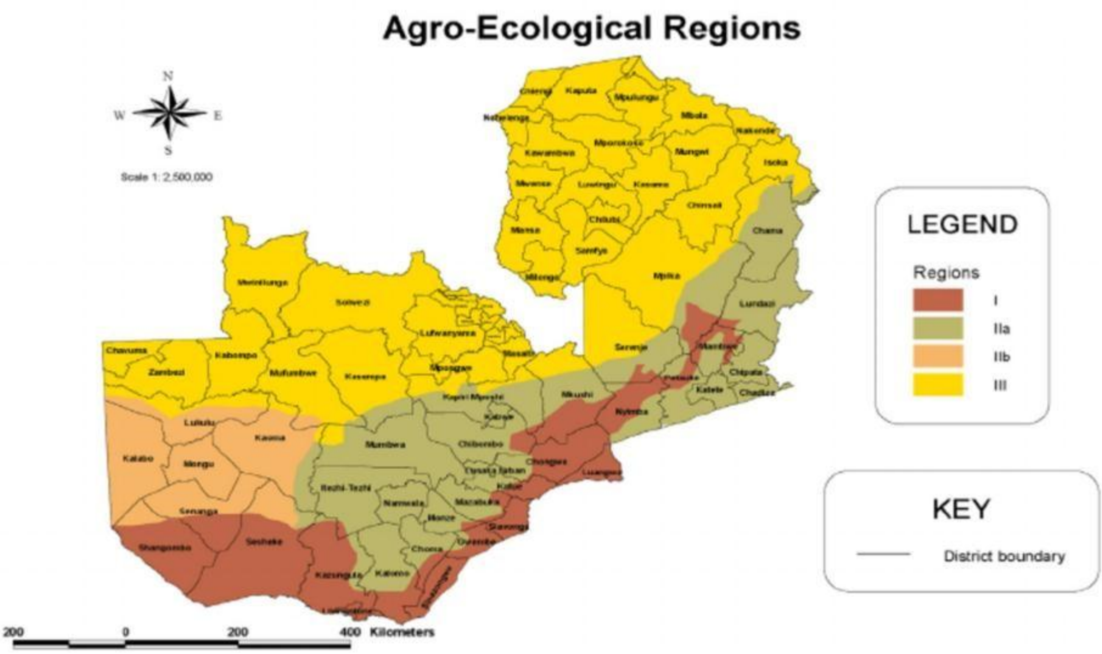


Figure 3.6: Agro-ecological regions of Zambia

Source: https://www.researchgate.net/figure/262987499_fig1_Fig-1-Zambia-administrativeboundaries-and-agro-ecological-regions-I-IIa-IIb-III

The parts of southern, western and eastern Zambia together make up Region I. This semi-arid region is predominantly cultivated by small-scale farmers. The major food crops produced here include sorghum, maize, groundnuts and cowpeas (Chikowo, 2017). The provinces of Central, Southern, Eastern and Lusaka province forms the agro-ecological region, Region II. With the most fertile soil of all the agro-ecological regions, it is here where most of the country's commercial farms operate. Their farming systems are mechanised and highly diverse, cultivating maize, soybeans, wheat, cotton, tobacco, coffee, vegetables, and flowers, and breeding livestock (Chikowo, 2017). Besides these large-scale systems, there are also small- and medium-scale farmers in the region. Maize is the main staple crop in these systems in Central and Eastern provinces (Chikowo, 2017).

Region III, the high-rainfall area, is situated in a band across northern Zambia, comprising the Northern Luapula Copper belt, North-western provinces and some parts of the Central province. Small-scale farming predominates in Region III. Rural areas of this region hold the lowest population density in Zambia. Farmers use very low-input, shifting and semi-permanent cultivation techniques (Chikowo, 2017).

3.4.4 Summary of main points related to the Zambia case

The underexploited agricultural industry marks Zambia as a lucrative investment destination. With only fifteen per cent of arable land currently being cultivated suggests that opportunities to develop and establish large scale commercially viable agricultural enterprises are abundant. The socio-political landscape of the country however offsets the potential benefits to be derived from investment in agriculture. Although the country has largely avoided spiralling into civil war, its political fragility often produces prolonged periods of civil unrest which is often met with violence. A persistent characteristic of the country's past, indicates the continuation of the vast powers of the presidency, which continues to threaten the democratic stability of the country.

3.5 CONCLUSION

Mozambique and Zambia are SADC countries with important agricultural sectors with substantial potential for expansion. This chapter provided an extensive historical overview of each of the two case studies. The purpose of this overview was to provide a thorough political and socio-economic overview of each of the case studies. This will allow for the extrapolation of key political risk factors in the following chapter. It first presented the political context of the SADC region at large and the agricultural industry. After the political landscape of the two countries were presented, the focus turned to their individual agricultural industries. It was presented that agricultural production is not performing at its full potential. The underdevelopment of this important sector can largely be attributed to the political histories of both countries. Under-development in Mozambique was caused by the multiple legacies of war (for independence and the ensuing civil war) and the failed socialism project driven by Frelimo. Zambia, conversely, underwent frequent periods of dramatic political change which saw differing economic policies being implemented. The single-handed focus on copper exports have also stifled the development and diversification of the Zambian economy. The following chapter offers an extensive analysis of the political risk factors that might affect investment in the agricultural sector in Mozambique and Zambia. By juxtaposing the differing risks in each of these two countries, a list of generic political risk factors, specific to agriculture for the SADC region, can be extrapolated.

CHAPTER 4: ANALYSIS

4.1 INTRODUCTION

This chapter will present the generic political risk factors in the agricultural industry in Southern Africa. It will first examine the process of identifying and selecting the risk factors before discussing the case studies. Mozambique will firstly be examined following a discussion of the essential political risk factors in its agricultural industry. Zambia will be observed in the same manner, with key risk factors being analysed in its agricultural sector. After addressing the political risk factors in each of the case studies, a generic list of political risk factors will be compiled for the Southern African region. These risk factors will be the most important for stakeholders to consider before deciding to invest in this key sector in Southern Africa.

4.2 SELECTION PROCESS OF POLITICAL RISK FACTORS

In chapter one the main objective of this research was identified as the compilation of a generic list of political risk factors. The unit of analysis is the southern African region (denoted by countries‟ membership to the Southern African Developmental Community, SADC) where Mozambique and Zambia have been selected as case studies. The first step in the selection process involved the selection of reputable sources from which to collect relevant political risk factors. The sources which were consulted consisted of the following: MI Risk Indexes, the PRS Group, The Economic Intelligence Unit, BBC News Country Profiles, Control Risks, and Stratfor. It is evident from the mentioned sources that it comprises company reports from notable risk companies and articles from reputable news agencies. The selected sources were based on the relevancy of the discussed political risk for the years from 2015 to present.

The second step involved the compilation of the identified political risk factors for each of the two case studies. The selection of these political risk factors was based on three considerations; how they affect at the regional, national and industry specific level (agricultural sector) specifically. When identifying potential risk factors, it is important to observe those events or possible actions that involve implicit and explicit political variables. At the operational level, the projection of political risk entails a form of causal analysis by making connections between historical and existing behaviour and by projecting it into the future. The selection of risks is also dependent on vividness and salience of the risk factor. The vividness of a risk factor is determined by the severity of the outcome; the more severe the expected outcome it, the more vivid the risk (Vertzberger, 1998:44). To ascertain the vividness of the risk, it is important to conduct a contextual analysis of each factor. The purpose of the contextual analysis is not to produce a risk rating for each factor but to simply determine whether it is relevant to the industry and vivid enough for due consideration.

The risks identified were specific to each case study. There were risks found which were unique to Mozambique, while there were other risks only related to Zambia. To construct a general list of political risk factors for the region’s agricultural industry, those risks that overlap between the two case studies were singled out. The political risk that have been identified for Mozambique were, political instability, corruption, social unrest, land tenure, and civil war. The political risks for Zambia were; government intervention in the agricultural sector, political instability, ethnic tensions, corruption, social unrest, and land tenure. These identified political risks were then collated and consolidated according to importance, relevance and frequency of occurrence.

The third step involved merging the list of essential political risk factors for this specific industry for the two case studies based on those that they had in common. The four political risks, important for investors to consider for the region are: security of land tenure, corruption, civil unrest and political instability.

4.3 MOZAMBIQUE

4.3.1 Introduction

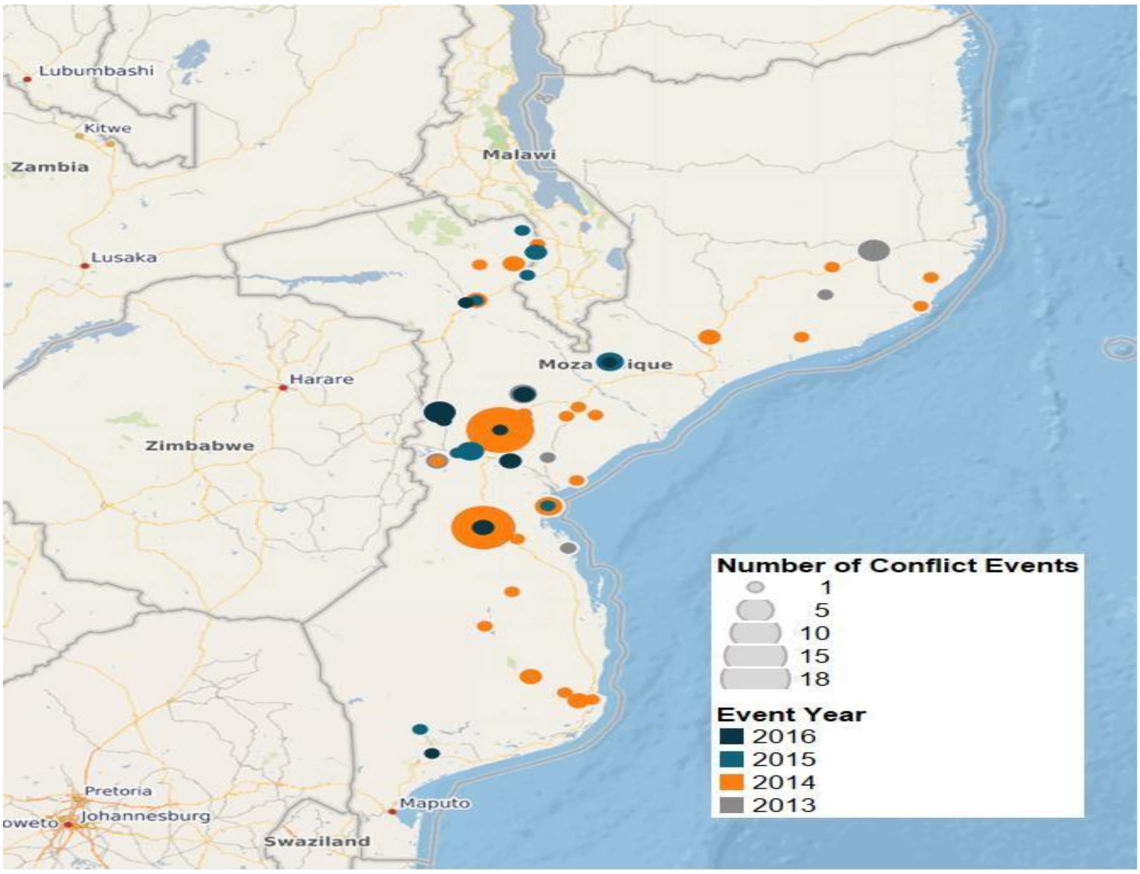
Mozambique offers an attractive market for investors who are looking to invest in southern Africa. The country holds a promising economic outlook, investor-friendly business environment, favourable geographical location and large scope for commercial expansion in its agricultural sector. While the country experienced a surge in capital-intensive projects, primarily in the extractive industry, agriculture is perceived to be an important foundation for economic development. Coupled with the high level of interest in acquiring large tracts of land for investment, the country is one of the most land-abundant in Africa, with approximately 80 million hectares in total. Currently only 5 million hectares are cultivated by mainly smallholder under rain-fed traditional systems. Prospective investors also stand to benefit from the Mozambican government's prioritization of the development of the latter. There are several political risk factors which taint the attractiveness of investing in the country. The risk factors that investors should take notice of before deciding to invest in this sector in Mozambique shall be discussed below.

4.3.2 Civil war

Mozambique's protracted civil war was particularly noted for its brutality, in which Renamo, a rebel group turned political party, was the main antagonist. Although the party was founded, financed and armed by external actors‟ intent on subverting the country, the party managed to build a popular base from which it draws continued support from the economically disenfranchised and the political climate of discontent (Bowker, Kamm & Sambo, 2016; Africa Conflict Monitor, 2017:39; BMI Research, 2016:24). After 15 years of socio-economic and political destruction, a peace agreement ended the war in 1992. Multi-party elections have followed, in which Renamo has emerged as the official opposition to date. The militia-politico movement however retained an armed force despite agreeing to disarm.

In 2013, the peace deal fractured when violence erupted in Renamo‟s stronghold in the country's central regions. The map in Figure 3.7 depicts the number of conflicts events involving Renamo in Mozambique by location and year from January 2013 to March 2016. In stark contrast to the civil war, victims of violence, included the looting and burning of towns, rape and murder, attributed it exclusively to government forces (Africa Conflict Monitor, 2016; Bowker *et al*, 2016). This was confirmed by 12 000 Mozambicans who have consequently fled to Malawi since mid-2015, where the UNHRC, Doctors without Borders and Human Rights Watch reported that refugees accused government forces of carrying out these attacks (Bowker *et al*, 2016; BMI, 2016:30).

Figure 3.7: Number of conflict events involving RENAMO in Mozambique by location and year, from January 2013 to March 2016



Source:http://www.crisis.acleddata.com/mozambique-april-2016-update/

Investors are directly affected by this low level civil war through Renamo‟s engagement in small clashes with security forces and the disruption of economic activity (Africa Conflict Monitor, April 2016:54). The group's militant attacks spread and intensified in 2016 where it carried out a spate of raids on international cargo on this important transport corridor (Stratfor, 2016). The resulting insecurity in the central provinces is a threat to the region's economy as it is a vital route for regional economic activity. The Beira Corridor, located in this region, forms the main route to the Mozambican post of Beira. The bypassing of this route will lead to increased transport costs and affect supply-line efficiency, leading to increased operation costs for investors relying on this transport corridor.

Provided the proliferation of arms in the country and its history of militancy in politics and political parties, the possibility of civil war remains and therefore need to be considered a political risk. “There is a plethora of small arms circulating throughout the country, notwithstanding on-going disarmament programs” (Reisman *et al*, 2012:24). Weak government oversight and the lack of a registry of weapons used in uniformed forces is lacking. This effectively means that the government cannot control the illicit proliferation and misuse of small arms in the country, and increases the possibility of this risk materialising. A full scale civil war may be unlikely, but the insurgency that erupted in 2013-2014 and of late, can possibly escalate. There is thus an increased possibility of latent internal violence due to the current political impasse. It therefore remains likely that Renamo will resort to violent means to achieve their goals.

4.3.3 Political instability

The Mozambican political landscape has been dominated by one political party since independence. While this has permitted for some political and electoral stability, policy continuity ensured by this dominance has weakened over time. The defacto one-party rule has been damaging to the political development of the country and does not necessarily equate to stability for the investor.

Political stability is however not only measured as policy stability. Government practices should also be considered. Issues such as legitimacy, transparency and accountability should also be borne in mind when evaluating the political stability of the host country. The Frelimo government’s credibility has been severely tainted by fraud and corruption. The government is facing serious economic and political backlash from a recent debt-scandal. It was revealed that US$1.12 billion in fraudulent loans have been granted to Pro Indicus and Mozambique Asset Management in 2015 (Global Risk Insights, 2017). The dubious loans to these companies, all owned by the government and managed by the security forces, led to speculation that it was intended to finance the armed oppression of political opposition. This has undermined the government’s credibility abroad and could lead to renewed possibility of armed conflict domestically.

These questionable loans, which the government is now obligated to pay, led to the suspension of aid from the IMF and assistance from 14 foreign governments in 2016. The cessation of foreign assistance leaves the government's finances in a dire state and with little leeway to quell rising domestic discontent. The cumulative effect of this has been diminishing trust in the government, which consequently affects Mozambique's political stability.

Political competition and a government's ability to remain in power is another vital catalyst for political (in)stability (Brink, 2004:84; Somers-Cox, 2013:48). In Mozambique, instability tends to increase during election periods due to weak electoral rules. Political parties are known to embark on campaigns of intimidation, violence and fraud to secure votes. The next municipal elections, to be held in October 2019, are forecasted to be intensely challenged, "as the opposition's relative success at a local level is central to its demands for greater regional autonomy" (Economist Intelligence Unit, 2017a). Renamo, along with the smaller *Movimento Demcrático de Moçambique* (MDM) have disputed the 2014 general and presidential election results and called it illegal. Afonso Dhlakama, leader of Renamo, has also recently declared his intention to form provincial governments in six of the country's 11 provinces, and install himself as "president of central and northern Mozambique" (BMI, 2016:24). This proclamation is symptomatic of the current disdain for the ruling Frelimo government and undermines the legitimacy of the national government and its ability to effectively govern the whole country.

Stark internal divisions within the ruling Frelimo are also expected to become more pronounced in 2017 as in-house power struggles continue to undermine the government's effort to the manage the country's political, security and economic crises (Economist Intelligence Unit, 2017b). This is indicative of Frelimo‟s loosening grip on the presidency and national assembly. It is however forecasted that the level of opposition and hostility between Frelimo and opposition parties will limit the government's policymaking capacity. And as such, political instability will remain an important political risk that the investor needs to consider.

4.3.4 Social unrest

Social unrest occurs when a country's population is dissatisfied with current economic, social, and/or political conditions. It manifests in different forms and is the result of several issues. In Mozambique, the most prominent manifestations of unrest range from the extreme (violent protests, riots and acts of sabotage) to other less violent forms of general disturbance. The main sources of these forms of civil unrest include income inequality, lacklustre economic growth, rising living costs, and government corruption and mismanagement.

While the country managed to maintain an average growth rate of 8% from 1994 to 2006, it remains desperately poor with high levels of inequality. The Gini Coefficient for Mozambique, a statistical measure of the degree of variation in income inequality, has risen over time to reach 45,6, placing the country amongst the most unequal societies in the world (Reisman *et al*, 2012:8). Economic development has also been quite uneven geographically. Maputo, the capital city has a GDP per capita six times higher than the national average (BMI, 2016:31). This mirrors the huge economic development rift between the North and (rich) south of the country, which also represent the respective support bases of Renamo and Frelimo.

Poverty is widespread in the country and mostly concentrated in rural areas. Despite the economic progress achieved, half of the country continue to live in poverty (Lundell, 2016; African Conflict Monitor, April 2017:44). Poverty combined with rampant unemployment, leave the country susceptible to outbursts of public protest (BMI, 2016:21). The fact that economic progress has not led to improved living standards, could fuel popular political discontent.

More recently the removal of wheat subsidies may increase the risk of social unrest, as there is a precedent in the country for rising prices to spark outbreaks of violent social unrest (Economic Intelligence Unit, 2017c). To quell mass demonstrations against rising living costs (which triggered several days of violent protests and left at least ten people dead), the government introduced subsidies on bread and fuel (Economic Intelligence Unit, 2017c). With the removal of these subsidies, anti-government sentiment can become more pronounced. Against the backdrop of one party dominance and low levels of trust in the democratic system, it is conceivable that frustrations will be aired through mass protests. A risk exists that this decision by the government will lead to the violent unrest of 2010. Mozambican society is affected by several of these factors that fuel civil unrest.

4.3.5 Corruption

Corruption can be conceptualised in several ways. Transparency International (2013) defines corruption as the "misuse of entrusted power for private gain", whilst the United Nations offers a more elaborate definition by defining it as "commission or omission of an act in the performance of or regarding one's duties, in response to gifts, promises or incentives demanded or accepted, or the wrongful receipt of these once the act has been committed or omitted" (United Nations, 2004:23). Patronage, another form of corruption, refers to patron-client relations that take prevalence over the formal aspects of politics (Fagbedebo, 2007:28).

Corruption is abounding in all levels of Mozambican society and is one the most difficult and pressing issues for businesses. Companies wanting to operate in Mozambique are exposed to a very high risk of corruption in most sectors (GAN Integrity, 2016). According to the United States Agency for International Development (USAID) "the scale and scope of corruption in Mozambique are cause for alarm", affecting all echelons of society, ranging from instances of petty administrative corruption to nepotism at state level (BMI, 2016:23-25). Despite government attempts to eradicate graft, it remains endemic with Transparency International's 2016 Corruption Perceptions Index report ranking Mozambique at 142nd of 176 countries (Transparency International, 2016).

The most prominent sections of Mozambican bureaucracy where prospective commercial agricultural investors would be exposed to corruption are land- and tax administration. As land is exclusively owned by the State, the administration of land presents investors with high corruption risks. The protection of land rights is therefore acutely hampered by factors like corruption and government inefficiency (Bertelsmann Stiftung's Transformation Index, 2014, cited in GAN Integrity, 2016). Tax administration presents another high-risk sector as bribes and irregular payments are often exchanged when meeting tax officials (Global Competitive Report, 2016 cited in GAN Integrity, 2016). According to the Afrobarometer (2014), approximately two-thirds of citizens believe the tax administration suffers from corruption.

Investors operating in industries of national concern, such as mining, banking or agriculture, are susceptible to corruption. Local officials, in search of economic opportunism, often exploit foreign investors where they accept bribes in exchange for contracts. Foreign firms or investors are further exposed to corruption when they must pay government officials relating to setting up and processing their investment application. Corruption is therefore not only a serious concern on the part of the host government, but investors that are willing to participate in corrupt activities as well.

4.3.6 Land tenure

With the post-independence socialist planned economy, all Mozambican land and rights there to were nationalised and declared property of the State. Currently the 1997 Land Law governs the use and management of land in the country. The law recognises peasant land rights to local communities, whilst also affirming that all land belongs to the State. There are thus two in effect, two systems from which to obtain access to land, namely the statutory system and customary law, as the new land law and its regulations recognise both forms of rights and use of natural resources. This presents a few challenges to prospective investors and a potential political risk threat which should be taken note of.

At present, the only legally recognised form of state granted land right is the *direito de uso e aproveitamento da terra* or DUAT. A DUAT is obtainable in one of three ways. Firstly, there is the recognition of long standing occupancy. There are two subcategories to this recognition, namely *customary (traditional) occupation* and *good faith occupation*. The former refers to the occupation of land by individual persons and communities, in accordance with customary norms and practices, if it does not contradict the Constitution (Locke, 2014:4). Good faith occupation is recognised for individual national persons who used land in good faith for a minimum of ten years (Locke, 2014:4).

The Land Law (1997) attributes huge importance to the customary law (community rights tenure) and recognises it in cases of conflict resolution. Basic familiarity with these customs pertaining to land rights can assist the investor in navigating the complexity of land tenure rights in Mozambique. Customary tenure norms still operate widely in Mozambique, but are changing.

There are several laborious administrative procedures attached to this application of new land rights on a concessionary basis. The prospective investor can expect to incur costs throughout the entire process of identifying suitable and available land, negotiations with the local community and compliance with Mozambican investment procedures and processes. The onus lies on the prospective investor to carry out consultations with local communities to ensure that the land is free, and determine conditions by which locals will concede land rights to the investor (Locke, 2014:4). The awarded rights are approved by various authorities depending on the size of the acquired land. For example, areas of up to 1, 000 hectares can be authorised by the provincial governor, while areas ranging between 1 000 - 10 000 hectares have to be approved by the Ministry of Agriculture. Approval by the Council of Ministers is required for applications for DUATs for areas over 10 000 hectares (Locke, 2014:4).

Most investors have complained that the consultation- and negotiating process increases their investment. Community consultation process cannot be avoided since it is referred to in the Land Law and its regulation. It is customary for the private investor to fulfil some of the community needs to be accepted. Compensation is not always based in the form of monetary means. For example, in Namitória, if the community allows their land to be leased by the private investor, payment takes the form part of the commodity being produced (Tique, 2002). In Goba, southern Mozambique, the community sought access to the private investor's water sources, whilst in Manica province, a community in Mucombué required the private investor to provide them with a primary school (Tique, 2002). In instances where land was sold or leased without compensation to or consultation with local communities, residents have clashed with the new land owner's agents (Maoulid, 2015:25). These aspects can significantly increase the total investment costs, but are necessary to safeguard the investment.

Community consultation processes cannot be avoided since it is referred to in the Land Law and its regulation. Whatever plan an investor has for a certain piece of land, should include a community consultation costs as part of the investment costs. Without adequate consultation and the legitimacy that this confers on investments, there can be significant risks to planned investment projects, for example, violence and damage to property. It can also intensify intra-community conflicts and undermine tenure security (Norfolk & Compton, 2012).

There are several challenges that can arise from land use rights which can cause tension between the foreign investor and the local community. It is therefore important to consistently monitor and engage the local community. Issues that have risen in the past occurred when a private investor fenced the land, consequently limiting the community's access to the river which was their only source of water. Other examples of tension related to land transactions when the private investor reneged on employing community members and instead recruited people from outside as was the case with Mozul, the largest aluminium factory in Mozambique (Tique, 2002).

Another crucial aspect pertaining to land right tenure that investors should be aware of is the order of precedence between the Mining Law and Land Law. The mining law establishes the primacy of mining activities over any other economic activity, provided that the economic and social benefits related to these operations are higher (Locke, 2014). Even if land is subject to existing land right use, it can still be designated as having potential for mining prospects. In such a case where a mining certificate has been issued on that land, the mining concession will be given priority and the existing land user will be resettled with „fair and reasonable indemnity" (Locke, 2014:12). In the case of provinces like Tete, this has resulted in the resettlement of large number of people who have been displaced from their original land holdings, often in areas with less productive soils and poor access to infrastructure and markets (Mosca and Selemane, 2012 cited in Locke, 2014:8).

In the wake of food shortages, the importance of indigenous land will be more acutely realised by locals, creating more resistance to land investors. The possibility of risk occurring from anti-foreigner sentiment is further fuelled by the perception of local communities that the best land (regarding soil fertility and quality) is granted to foreign investors at their expense. While the consultation mechanism amongst community members might have been conducted in instances such as above, the potential for grievances by locals can arise at a later stage. For the investor, security of land tenure is therefore one of the most significant political risks and certainly one of the costliest aspects in the whole investment process.

4.3.7 Summary of main political risk factors for Mozambique

There are five political risk factors which are of paramount importance for consideration by investors wanting to participate in the agricultural sector in Mozambique. These risk factors comprise civil war, political instability, social unrest, corruption and security of land tenure. Mozambique has a political history characterised by wars and brutal violence. As internal violence has occurred before, and threatens to erupt again, there is the possibility of civil war festering. The current political impasse has also contributed to an increasingly unstable political landscape. Coupled with the growing internal factions and decline in legitimacy, the ruling party's capacity to govern effectively is limited. Contributing to this lack of legitimacy is the fact that corruption is prolific in the country and one of the most difficult and pressing issues for business. Dissatisfaction with the governance record of Frelimo and the mismanagement of the economy led to the increased possibility of social unrest manifestations which could disrupt the business environment. Finally, security of land tenure forms one of the most crucial political risk factors due to weak enforcement of property rights and the country's socio-political history involving land ownership.

4.4 ZAMBIA

4.4.1 Introduction

Zambia is endowed with a large arable land resource base with huge potential to expand its agricultural production. The country has a free market liberalised economic environment with a relatively stable and multicultural society. The Zambian government is generally welcoming towards investors across sectors and have established laws relating to investment to provide investment incentives and protection. Commercial farming is increasingly recognised for its importance in diversifying the country's economy and agricultural base. The investment potential of the country is however setback by the reality of certain risks. The most significant political risks affecting the agricultural industry shall be discussed below.

4.4.2 Social Instability

Zambian society has entrenched social inequalities which are mirrored in the country's labour system and land management. A perturbing poverty trend is the distortion in income distribution. Geographically, the highest incidences of poverty are recorded in more remote provinces. Whilst poverty has declined in Lusaka and the Copperbelt, the poverty rate in other provinces has increased (Global Risk Insights, 2016b:32). Economic improvements have therefore not led to commensurate progress in standards of living.

Most of the Zambian population live in rural areas and are dependent on subsistence agriculture for their livelihoods. With several of the population in this social stratum unable to afford agricultural inputs, and their ability to cope with the effects of climate change being severely limited, the participation of foreigners in commercial agriculture can serve as a source of social tension. According to the PRS Group (2014:11,31) the relative prosperity of organised farmers in the Zambian National Farmers Union, who produce vital agricultural commodities, attracts resentment from these poor, small-scale farmers, amongst whom the incidence of poverty is already high. An aggravating factor to the precarious socio-economic situation of subsistence-farmers in the country has been erratic rainfall which led to reduced agricultural income and increased food prices for them. Erratic rainfall and the resultant crop failures can cause food price hikes, as it has in the past. Zambia has previously experienced food riots due to increases in food prices which the majority could not afford.

The lack of employment opportunities amongst the country's youth, coupled with limited social protection mechanisms, pose a further risk of potential instability and crime (Ministry for Foreign Affairs of Finland, 2014:23). An added strain to the already limited social services budget is the fact that the country is a destination country for asylum seekers and refugees from Angola, Burundi, the DRC, Rwanda and the Horn of Africa (Ministry for Foreign Affairs of Finland, 2014:23). Official statistics from the United Nations estimate that the country has a population of over 50 000 refugees, who reside primarily in refugee settlements in the Western and North-Western provinces (United Nations Zambia, 2013:23). The extensive refugee and migration flows put extra pressure on the government's constrained resources, which is already dragged down by weak administrative capacity and lacklustre economic growth. By straining the government's ability to provide social protection mechanisms and basic services to indigenous Zambians, uncurbed migration and refugee flows can spark social unrest and fuel latent ethnic tension.

Populations in countries with fragile political systems do not always take recourse to democratic behaviour when expressing its displeasure. The combination of high unemployment and a poverty rate which is estimated to be at sixty percent, is a high driver for social unrest (PRS Group, 2014:3). Foreign firms, and by extension foreign owned large-scale commercial agricultural operations, "could be inviting targets for frustrated Zambians looking to vent their anger and policy makers seeking to appease an unruly population" (PRS Group, 2014:3). As a country with a fragile political system, protests by deprived segments of the population could become a common feature of the Zambian social landscape.

4.4.3 Political instability

Despite it being situated in the centre of a politically unstable part of the southern African region, Zambia has been relatively politically stable. The country has however periodically experienced overt political tensions which manifested in violent protests and police brutality. This violence and instability tends to increase around election periods. After Zambia's President Michael Sata died in office in October 2014, Sata‟s Minister of Defence, Edgar Lungu, was chosen by the ruling Patriot Front party to contest a presidential by-election to fill the remainder of Sata‟s term

(Africa Conflict Monitor, 2017b:42). The contest saw Lungu narrowly defeat Hakainde Hichilema of the United Party for National Development (UPND). The same candidates contested the following year when the next general election was held. Again, Lungu emerged victorious to which the opposition challenged the results.

President Lungu‟s reaction to the opposition's challenge to his legitimacy has however been deemed excessive and damaging to the political stability of the country. Following his rise to the presidency, the government has repeatedly threatened to impose a state of emergency, which would see the President with increased executive authority (Africa Conflict Monitor, 2017b). The August 2016 Presidential Election has revealed Zambia's electoral landscape to be distinctly split, with clear opposition bastions in the south, west and north-west (Economic Intelligence Unit, 2017b).

Competition between political parties in Zambia has been on the rise since 2001. The increase in political competition tends to be associated with an unstable political environment. Violence against opposition parties included the arrest of four opposition leaders who were charged with treason (Africa Conflict Monitor, 2017b). Other voices of dissent, such as the editors of Zambia's leading newspaper, The Post, were arrested following the closure of the newspaper in a move that several deemed politically motivated (Financial Times, 2017). Another sign of political instability is the attempt to retain political power through fraud, intimidation and violence. "Credible reports from local and international observers indicated that amongst the irregularities was the abuse of public funds, curtailing of press freedoms, electoral fraud and coordinated political violence that claimed three lives" (Vasey, 2017). With President Lungu‟s proposed state of emergency declaration, security forces would be given additional flexibility in quelling disturbances in zones deemed volatile. Fatal clashes between demonstrators and police erupted in early April 2017, indicating how protests can turn violent and lead to mini-conflict zones (Economic Intelligence Unit, 2017c).

The country's divisive election period in 2016, coupled with harsh policing and violence, brought Zambia's reputation as a politically stable country under threat. These tensions are threatening to destabilise the country that is already grappling with rising debt, widening deficits, sluggish growth and weak revenues form copper that account for 70 per cent of export earnings (Financial Times, 2017). Political instability is therefore a crucial political risk factor which investors need to consider regardless of the industry that they operate in.

Zambia's geographic location makes it necessary to consider the political stability of its neighbouring countries. As a landlocked country, Zambia's economy is reliant on its coastal neighbours (Angola, the DRC, Mozambique, and Tanzania) for access to maritime trade. Political unrest and instability in these countries therefore affect the performance of Zambia's economy to a certain extent. The heightened political tension between Frelimo and Renamo in Mozambique, which has spilled over into disruption and sabotage of vital regional transport corridors on which regional economic growth depend, pose problems to businesses operating in Zambia.

Similarly, political strife in the DRC poses an economic risk to Zambia's economy. The external effects of political instability in region may also cause a decline in trade and investment throughout the entire region, culminating in deteriorating economic conditions which may further fuel political and socio-economic discontent. The resultant refugee flows, caused by this political instability in the region, also contribute to increased security and political risk for Zambia.

Increased refugee flows adjust the ethnic composition of the state. This change in ethnic balance can spark discontent by the local population towards the refugees as well as the government for granting them access (Salehyan *et al*, 2006). The possibility of this resulting in overt conflict is further increased if there is a domestic minority of the same ethnic group as the foreign population. For example, after the Rwandan genocide, the arrival of fleeing Hutu refugees to the DRC (then known as Zaïre) led to fighting among Tutsis and Hutus in the eastern provinces. This also led to Tutsi mobilization against the Mobutu regime in the country (Salehyan *et al*, 2006: 8).

Therefore, when considering political instability as a political risk factor, it should necessarily also include a regional dimension.

4.4.4 Government intervention in agriculture

The Zambian government is extensively involved in the agricultural sector. This is evident through the number of government institutions with the legislative mandates that relates to the management and administration of various aspects in the agricultural industry. Ministries in charge of issues related to Zambia's agriculture include; Ministry of Lands (land allocation), Ministry for Energy and Water Development (water for irrigation), Ministry of Agriculture and Co-operatives (agricultural production), the Ministry of Commerce, Trade and Industry (responsible for external agriculture and food trade and domestic agricultural trade (Chisala, 2009:353). The country therefore holds an overly cumbersome- and over-centralised regulatory environment.

Interference in agriculture by the Zambian government frequently occurs through the pronouncement of import and export bans on agricultural staples. Export and import bans are however not limited to Zambia. Recently, many food-exporting developing countries attempted to isolate their domestic food prices from international markets. The main objective of these export bans is to stabilise domestic food prices. While these bans tend to favour domestic consumers by lowering prices, they are detrimental to domestic producers and traders by hindering their access to lucrative prices in international markets (Makombe & Kropp, 2016). In addition to decreasing the producers" profitability, it also discourages the production of that crop and can affect producers" production capacity in the subsequent season.

In the 4th quarter of 2016, the Zambian government announced an export ban on maize, following a finding by the Food Reserve Agency (FRA) that domestic stock would be insufficient for domestic demand in 2017 (Lusaka Times, 2017a). The ban was lifted again in May 2017. According to the Zambian National Farmers Union, Zambian farmers will not benefit from the „lucrative international markets as the region is saturated with grain" (Nakazwe, 2017). Because of the export ban, Zambian producers of grain have lost market control in the region. Previously the government has replaced export bans with a ten per cent export duty to assist the government in increasing their revenue base (Zambia Business Times, 2016). Again, producers suffered due to the uncompetitive prices of their agricultural commodities compared to other regional producers.

With ad-hoc export bans, volatility in price levels increase which causes uncertainty for the agricultural producer. This price instability and market unpredictability affects the long-term decision-making of producers and traders. Low prices induced by trade interventions, such as these export bans decreases producer's welfare, and especially on the welfare of those who heavily depend on the intervened crop as their main source of income. Government intervention in the agricultural sector is therefore a political risk for prospective investors as the country fails to maintain consistent and predictable policies to agricultural trade.

4.4.5 Security of land tenure

As in Mozambique, all land in Zambia and rights thereto are vested in the state (Chisala, 2009:358). The Lands Act of 1995 stipulates qualifications to land ownership. A distinction is made between State Land and Customary Land. Under the current system of tenure, customary land is estimated to be at 94% of the total land of Zambia, and the remaining six per cent under State Land (Ministry of Foreign Affairs for Finland, 2014:21). These statistics however, do not present the reality of land management in the country. When customary land is leased to foreigners, it ceases to be governed by customary law. Statutory law then governs the leased land. Therefore, land governed by customary law is far less than what the official statistics of land management report. Security of land tenure should however still be considered a risk factor.

While investors do not have to concern themselves with customary land tenure, it poses a risk for them in relation to the local population's rights to land ownership. Several local individuals do not obtain title deeds due to the cumbrous process

involving the conversion of land from customary tenure to leasehold tenure and the unwillingness to pay ground rent to the state (FAO, 2013: 292). Locals consider the concept of title deeds as foreign and irrelevant to local practice.
Several hold the conviction that the land is theirs by their (or their ancestors‟) having lived there even before the establishment of Zambia as a nation. Since land under these circumstances are governed by local customary laws, the chiefs, as custodians of customary law, therefore control the land (FAO, 2013: 295). The chief therefore has the right to revoke land rights, often for arbitrary reasons such as when individuals are deemed to be violating the customs and traditions of the chiefdom. Under this pretext, a breeding ground is created for tensions in cases where the government or local authorities take land away from local groups and allocates it to an outside investor.

Another factor undermining security of land tenure, is the state of the Zambian judicial system. The enforcement of contractual and property rights in business disputes is unreliable, and Zambian courts, furthermore, demonstrate a limited proficiency in handling commercial litigation (GAN Integrity, 2017). Even though property rights are well defined by law, the slow and non-transparent and incompetent court system presents a challenge to investors (Bertelsmann Stiftung's Transformation Index, 2014, cited in GAN Integrity, 2017). The total procedures, days, and costs required to register property in Zambia, greatly exceed the regional averages of Sub-Saharan Africa, presenting further opportunities for public officials to demand facilitation payments and bribes (The World Bank, 2015).

Finally, a further source of tenure insecurity that investors should take note of relates to President Lungu‟s decision to task the Minister of Land and Natural Resources to revise the Lands Act (Lusaka Times, 2017b). The President further urged the Minister to revise the Lands Act to see to it that ownership of land is regulated to avoid foreigners from indiscriminately and illegally buying land. Concern over land has also been extended to some traditional leaders who have „given away‟ land to investors with impunity (Lusaka Times, 2017b). In the wake of the dire socioeconomic status of most of the population, the proposed revision of the Lands Act is a risk to foreign investors. There is always the uncertainty in the investment environment when laws/acts are being revised and how it could impact existing agricultural investment which involves the management of land under foreign investors. There is thus a risk that land acquisition for foreigners could become more stringent under the proposed revision of the Lands Act. Other sources of political risk related to tenure security that investors should be aware of, include the duality of land tenure system, the over-centralised land administration system and the abuse thereof.

4.4.6 Corruption and rent-seeking

Corruption is pervasive in Zambia and permeates through all societal structures and levels of government institutions. According to Transparency Internationals‟ 2016 Corruption Perception Index, Zambia scored 38 points out of 100, where 0 indicated a highly corrupt country (Transparency International, 2016). In 2014 corruption levels reached a staggering 78 per cent according to the Bribery Payers Index compiled by the Anti-Corruption Commission (Maingalia, 2015). According to the Centre for Democracy and Governance (1999 cited in Dike, 2010), several factors can predispose groups or societies to create an enabling environment for thriving corruption. In a context of pervasive poverty (and conflict), such as Zambia, allegiance to personal, ethnic or religious identity outweigh allegiance to objective rules (Godson-Ibjei, Ogueri & Chikaire, 2016).

Corruption and bribery affect potential agricultural investors through several issues relating to the investment and management process of establishing a commercial agricultural enterprise. These include securing land title and tenure, quality of supplies, water allocation, marketing, and the private agri-business (Fink, 2002:1; Godson-Ibej, Ogueri & Chikaire, 2016: 544). Corruption affecting these issues occur both in developed and developing nations, but are more visible and chronic in the latter due to the extensive involvement of the government in the agricultural sector. Consequently there is a higher probability for corrupt activities in this sector.

Where corruption stifles the development of a competitive agribusiness sector, the commercial agricultural enterprise suffers through increased production costs due to uncompetitive input prices. Private sector agri-business is necessary for supplying inputs, processing food, transporting and marketing of agricultural products (Fink, 2002). Agribusinesses in turn, are reliant on governments to obtain licenses and permits for transportation, storage and processing, all of which are sources of corruption.

Obtaining access to public services in Zambia is an avenue that promotes rent seeking. Facilitation payments are therefore a common occurrence in Zambia – almost half of all firms pay bribes and make facilitation payments when dealing with Zambia's public services (Enterprise Surveys – Zambian Country Profile, 2013).

There is also a moderate risk of corruption when dealing with Zambia's tax authorities. One in ten companies expect to pay bribes and make facilitation payments in meetings with Zambian tax officials (Enterprise Surveys – Zambian Country Profile, 2013). For agricultural producers who wish to export their commodities, the Zambian custom administration, who is influenced by corruption and bribery, presents another challenge.

Challenges with land ownership, registration, tenure and sales are another risk avenue for corruption to take place. As land registration is often a slow and costly process, it is vulnerable to bribes offered or demanded. The bureaucratic red tape and procedures when applying for licenses and permits, and registering property present further opportunities for public officials to demand facilitation payments and bribes (The World Bank, 2015). Corruption and extortion is therefore an essential political risk that investors should be aware of.

4.4.7 Summary of the main political risk factors for Zambia

When considering participating in the Zambian agricultural industry investors need to consider five important political risk factors. These risks have been identified as civil unrest, political instability, government intervention in the agricultural market, security of land title and tenure, and corruption and rent-seeking. Zambia entrenched social inequalities. There is a high propensity that the prosperity of organised agricultural stakeholders in the country can trigger resentment and tension from subsistence farmers who constitute most of the population entrapped in poverty vis-à-vis foreign investors. Political instability forms the second political risk factor. Zambia is known to suffer from periods of overt political tension around election time as well as threats of the imposition of martial law. The agricultural regulatory environment is overly cumber-some and highly centralised. The Zambian government furthermore frequently interferes with in the market via export bans which affects the profit of producers. Government intervention in agriculture should therefore be considered a political risk as the government fails to maintain consistent and predictable agricultural trade policies. Security of land title and tenure is another important risk to consider. The revoking of land rights from locals in favour of foreign investors occurs frequently and serve to antagonize foreign investors and their investment. The country also has weak enforcement of contractual and property rights. Finally, corruption and rent-seeking completes the list of political risk for Zambia. Corruption is pervasive in the country and affects potential agricultural investors through increasing production costs due to uncompetitive input prices, creates insecurity regarding land tenure and creating an uncompetitive operating environment.

4.5 MAIN REGIONAL POLITICAL RISK VARIABLES FOR THE SOUTHERN AFRICAN AGRICULTURAL INDUSTRY

After having considered the political risk factors in each of the two case studies, a list of main political risk factors for the Southern African agricultural industry can be compiled. The compilation of these risks was based on a comparison of those risk factors that were present in both Mozambique and Zambia. The risks that these countries had in common include, security of land tenure, corruption, political instability and civil unrest.

4.5.1 Security of land tenure

Security of land tenure refers to the sum of customary, state, legal or other mechanisms which secures the right to access land and the assurance that the right can be upheld (Ramirez, 2002:7-8). Land investment and security of tenure is only advantageous and guaranteed when locals participate and profit from the commercial utilisation thereof. Lack of transparency and consultation in the processes of land management by foreigners can engender anti-foreigner sentiment, create animosity between the locals and the investor and could lead to violence directed from the latter on to the former.

Security of land tenure forms the most crucial and costly political risk factor for the foreign commercial agricultural investor. As has been mentioned above, all land in both Mozambique and Zambia are nationalised. To obtain utilization rights of land in Mozambique, investors must acquire a DUAT. The process of obtaining a DUAT is often laborious as it involves prolonged negation and consultation sessions between the investor and the government and local community, respectively. Community consultations are extremely important to secure the investment, as it confers legitimacy on the foreign investors' project and usage of the land. In Mozambique, security of land tenure is also threatened by the precedence of the Mining Law, which stipulates the primacy of mining activities above other economic activities. For the foreign commercial agricultural investor, this implies that that the existing land user would be resettled with "fair and reasonable indemnity" (Locke, 2014, 12) if a mining concession has been issued on that land.

In Zambia, security of land tenure is equally important to consider. While the enforcement of contractual and property rights in the country is often unreliable, it is important to give due consideration to the local population's right to land ownership. As local traditional authorities act as custodians of land governed by customary law, they possess the right to revoke land rights from the local population (often for arbitrary reasons) and allocate it to foreigners. Under this pretext, a breeding ground is created for tension between the local population and the foreign commercial agricultural investor. Lastly, the Zambian President also recently declared his intention to revise the Lands Act. Considering the dire socio-economic status of the majority of the population, the proposed revision of the Lands Act is a potential risk to investors as there is always uncertainty in the investment environment when laws are being reviewed and how it could impact current existing investments. In summation, the indicators of the political risk factor include the duality of land tenure system, the over-centralised land administration system and the abuse thereof.

4.5.2 Corruption

Corruption, manifesting as extortion, high and low-level corruption and excessive patronage (Lambrechts *et al*, 2010:119), can take place on any level, affecting numerous sectors and stakeholders. Corruption in the political system presents a political risk to foreign investors. At the micro-level, corruption increases the cost of doing business and can present itself as bribes, special payments, loans and exchange control to public officials (Brink, 2004:86). At the national level corruption has a snowballing effect in that it can lead to the severe instance where government becomes ineffective in handling other challenges and curtails its ability to provide basic services (Bremmer & Keat, 2009:20). It further leads to the abuse of state resources, hampers government's efficiency, and demoralises state bureaucracy through nepotism and patronage. Finally, corruption also creates an unstable environment as it threatens the rule of law and weakens the judiciary.

The potential for foreign commercial agricultural investors to be exposed to corruption preceding, during and after the establishment of their commercial enterprise, is plausible, warranting it to be considered as a political risk factor. In both case studies under review, corruption permeated through all sectors of society and levels of government, ranging from land- and tax-administration to other actors on whom foreign commercial agricultural investors rely on for production inputs. As land is exclusively owned by the State in both countries, the administration thereof serve as another avenue of potential corruption. This political risk is therefore not only a serious concern on the part of the host country, but also investors who are willing to participate in corrupt activities as well.

4.5.3 Political instability

Political instability refers to the government and its practices. More specifically, it measures a government's ability to deliver on its intended policies and their "ability to retain office" (Brink, 2004:84). Abrupt or unforeseen changes in government, an authoritarian administration, the lack of legitimacy, transparency and accountability are some factors which diminish the government's effectiveness and weaken the state. Consequently, this political instability creates an environment conducive to poor governance and engenders discontent and lack of law and order (Bremmer & Keat, 2009:283). The stability of a government hinges on several factors, namely, the cohesion within government structures, fragmentation within political parties, election intimidation and tension, and use of force to retain power.

The assessment of political instability should however not only be limited to the national-level alone. The SADC region is increasingly linked politically and economically. Consequently, countries in the region are affected by events occurring in neighbouring states. Prospective investors should therefore incorporate an assessment of the political instability of the region as a whole, particularly those of neighbouring countries.

Political instability has been selected as a significant political risk due to its propensity to manifest and its impact on the investment. In both case studies, political instability was identified to be a noteworthy political risk. Issues of legitimacy, transparency and accountability are severely lacking in both Mozambique and Zambia. In Mozambique, the Frelimo government's credibility has been tainted by fraud and corruption, with a tendency to embark on campaign of intimidation, violence and fraud during election periods. The internal party leadership structure is also suffering from stark internal divisions, which will continue to hamper the party's ability to effectively manage the country's political, economic and social crises. Disdain for the ruling government is also currently manifesting in the over political violence which is festering between Frelimo and Renamo, with the leader of the latter party threatening to instil himself as the "President of Central and Northern Mozambique" in the country's municipal elections, to be held in 2019.

Similarly, Zambia's political landscape is also characterised by political fragility. While the country has managed to maintain relative stability despite it being nestled between its politically unstable neighbours, the country still experiences periodic political tension which manifests in violent protests around election periods. Due to its geographic positioning, and e its economic reliance on neighbouring coastal states for access to maritime trade, it is necessary to consider political climate of Zambia's neighbours. The external effects of region-wide political instability often pose challenges to Zambia through disruption on vital regional transport corridors and large refugee flows.

4.5.4 Civil unrest

Civil unrest occurs when the populace is dissatisfied with the status-quo and wants to impose change. This mainly arises as a symptom of deteriorating socio-political circumstances and mounting discontent with governance failures (Brink, 2004:85). Indicators of civil unrest include widening socio-economic inequality, government suppression, injustice, sluggish economic growth, unemployment, or public service delivery failures. Civil unrest, exhibited through protests, sabotage, riots and occupations lead to a general disturbance of the business environment and can disrupt commercial activities. In several instances, civil unrest actions involve the occupation or blockages of strategic economic infrastructure such as the closure of important transport corridors.

Civil unrest has been selected as a significant political risk due to its prominence in both Mozambique and Zambia. Both case studies exuded uneven economic growth and large-scale social disparities. Poverty is also widespread in both countries, particularly in the rural areas. Due to unequal income distribution and high prevalence of poverty, the local population of both countries are extremely vulnerable to rising living costs, and tend to demonstrate their dissatisfaction in violent social demonstrations. Another compelling reason for the foreign commercial agricultural investor to consider social instability as a political risk factor, especially in Zambia, is due to the large number of the population dependent on subsistence agriculture. This stratum of the population faces the dual challenge of the inability to afford agricultural inputs and a limited ability to cope with the effects of climate change. Consequently, the presence and participation of foreign commercial agricultural investors can serve as a source of social tension.

4.6 CONCLUSION

This chapter offered an analysis of the most important political risk factors, affecting the agricultural industry in Mozambique and Zambia. The purpose of analysing was not to measure the likelihood of the political risk materialising (to produce a risk rating), but to determine whether the political risk was relevant to the industry under study and how it would impact the agricultural industry if the risks were to occur. By comparing the findings for each of the case studies, a list containing the essential political risk factors for the region could be compiled. The selection of risk factors was done in accordance with a selection process based on reputable sources and relevant to the industry. The identified risk factors were further subjected to relevance and importance based on how it impacts at the national and industry-specific level. The listing of these political risks can aide investors who are contemplating participating in SADC‟s agricultural sector. As it was not the intention to conduct a risk assessment for generating a risk rating, the identified risk factors in this chapter can assist in such an undertaking.

Chapter 5 concludes the study by providing an overview of the research. It observes the progression of the research followed by the evaluation of the research, regarding its aims and objectives. This chapter also observes recommendations for further research**.**

CHAPTER 5: REVIEW OF THE STUDY AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 INTRODUCTION

The findings of the Ernst and Young (2015) Africa Attractiveness Survey, stating that investors are optimistic yet cautious concerning agricultural investment on the continent, served as the starting point for this research. The optimism regarding agricultural investment in Africa was largely driven by long term growth, trajectory and prospects, coupled with the decline in investment returns from traditional investment sectors such as the global oil and gas industry. This optimism in Africa's agricultural industry was offset by perceptions of instability and high levels of risk that could pose a threat to the profitability and security of their investment.

It is against this background that this research endeavoured to identify and compile a list of the most critical and common political risk factors present in the Southern African region's agricultural industry. This objective would empower investors considering participating in Southern Africa's agricultural industries to make informed decisions about what political risks their investments may face, and subsequently, enable them to devise risk management strategies to protect their assets and interests. By utilising the Southern African regional political risk list for the agricultural industry, investors would ultimately be able to holistically consider the potential profitability of their investment transaction before they commit financial and other resources to execute it.

The selection of Mozambique and Zambia as representative case studies of the Southern African region, proved to be appropriate. The agricultural industries of these two countries are important economic sectors with main linkages to other business sectors, employment- and income generating sectors. To conclude this research, Chapter 5 provides a brief summation of this study, by firstly, examining the progression of the study and what each chapter entailed. Secondly, it evaluates the research regarding its research questions, the objectives and the relevance thereof. Recommendations for future research will be provided prior, to a general conclusion to the research.

5.2 PROGRESSION OF THE RESEARCH

Chapter 1 provided the background of this research. The three key research areas which the study engaged in; political risk, Mozambique and Zambia and their agricultural industries, were highlighted through a brief literature review. The chapter then proceeded to discuss the research problem, its design, followed by the research methodology. The limitations and delimitations were then presented. Finally, the chapter presented the structure of the remainder of the research in the form of a chapter outline.

Chapter 2 elucidated key concepts upon which the research rested and also provided the theoretical base. The latter was based on the theories of problem-solving and rational choice theory. Key conceptualisations that were relevant to this study and which were explored included „risk", „political risk", and industry-specific risk". The exploration of the plethora of definitions advanced for the term political risk allowed for the formulation of a concise definition.

Chapter 3 contained a dual contextualisation of Mozambique and Zambia. A baseline construction of the political and socio-economic of each of the two countries were presented. By contextualising the prevailing political conditions in Mozambique and Zambia, the key political risk factors in the agricultural industry could be extrapolated. The selection of these two case studies as representative of the region proved adequate. Both countries command agricultural industries that attracted investment and provides plenty of scope for future expansion. This sector not only constituted an important part of their GDPs, but also served as a vital employment- and income generating sector with important economic linkages to the rest of their economies. Agriculture is therefore an industry of strategic importance to both these countries. Chapter three therefore provided the foundation from which to determine the central political risk factors discussed in Chapter 4.

Chapter 4 answered the root of this research. It commenced with the explanation of the political risk factor selection process through which the key political risk factors for the region's agricultural industries were identified. In order to identify and compile a regional risk factor list, the political risk factors for each case study were identified individually. Consideration of political risk factors were made on the basis of how it occurred and affected the case studies at the regional, national and industry-specific level. This identification process was also subject to strict selection criteria based on the relevance and reputability of sources. The political risks identified in Mozambique included political instability, civil war, civil unrest, corruption, labour, and security of land tenure. For Zambia, the political risks identified included land security, political instability, social tensions, corruption, and government intervention in the agricultural market. The utilisation of these two case studies as representative of the Southern African region, and discussing their important political risk factors affecting their respective agricultural industries, enabled the compilation of a list of political risk factors for the region at large. The risk factors that investors should be aware of comprise; political instability, land tenure, civil tensions and corruption.

With the abovementioned political risk factors identified, investors considering participating in the agricultural industry in southern Africa, can think about potential political risks that might affect their investment in a clear way. With identifying risks completed, the other two tenets of risk management can be completed, namely the analysis of the risk (to determine the likelihood of the risk occurring and impact of the risk should it occur) and the development of risk management or –mitigation strategies to safeguard the interests of investors.

5.3 EVALUATION OF THE RESEARCH

The purpose of this research was to extrapolate key political risk factors in the southern African region relating to the agricultural industry. To do this, Mozambique and Zambia were selected as case studies. Investors are confronted with several risk factors that. In the agricultural industry risks are abound and wide-ranging. Political risk is often a neglected category of risk concerning this sector, receiving less attention than other types of risk.

The main research question was: *What political risk factors should investors take cognisance of before investing in the agricultural industry in the SADC region?* The independent variables were the main political risk factors and the dependent variable was the agricultural industry in the SADC region. Two sub-questions aided in the answering the main research question. These were: *'What are the main political risk factors influencing the agricultural sector in Zambia*" and „*what are the main political risk factors influencing the agricultural sector in Mozambique?*

The findings of this research was established using secondary data. This proved to be sufficient to answer the research questions as the secondary data was subject to strict criteria namely, the reputability and relevance of the sources and risk reports. Attempts were made to supplement the secondary data through the addition of some primary data in the form of structured interviews or questionnaires to either consultants advising prospective investors in the agricultural industry of the respective case studies, or foreign agricultural producers who are already active in this industry in the case studies that were under review. Whilst potential respondents were identified, no responses were received in time before the completion of this research. It is plausible that the lack of responses from consultants in this regard were due to view that political risk assessments are deemed to be intellectual property of these individuals or companies and therefore would negatively affect their profitability. In the case of producers already active in this industry, it is suggested that incentives be offered to generate responses to the questionnaires. This research did not make use of field research due to financial and time constraints.

The study of political risk of land acquisitions for commercial agricultural development and operation (and for other purposes) merits particular attention. While the explicit objective of this research was to identify and compile a generic list of important political risk factors affecting the agricultural industry in southern Africa based on the acquisition of land for commercial agricultural production, the findings can serve as basis for evaluating political risk related to foreign investment in land in southern Africa, regardless of the purpose for the development of the land. For example, whether the investor wants to develop the land for residential purposes or the establishment of game parks, it can be useful, subject to the addition and elimination of certain political risk variables already identified.

The research fulfilled its purpose in being exploratory. Exploratory research seeks to answer questions relating to „what‟ and is often conducted when there are no or few earlier studies to refer to. The research also achieved its objective of being descriptive in that it offered a comprehensive overview of the political and socioeconomic context of and the political risk present in the Southern African region. A contribution has therefore been made to existing literature on risk in the agricultural industry in the region.

Regions increasingly became important units of the international system and superseded the nation-state in economic and political importance. As a region that indicates an increase in political, economic and social inter-linkages, Southern African countries risk profiles cannot be independently considered from the region. This research therefore made the case that political risk should be approached from a regional perspective. Regionalism is fundamental to the functioning of current world affairs. With the formation of regional blocks, countries are not only seeking to foster economic and political cooperation, but to address common challenges collectively. Through this integration process at the regional level, which is being actively pursued amongst SADC countries, member states are creating an environment whereby they are influenced by regional political and -economic occurrences outside their national borders.

There exist several types of risks in the agricultural industry, with political risk often being considered as less important compared to environmental risks such as climatic conditions. This research has shown that political risk is as equally important concerning agriculture in Southern Africa. The political conditions of the host country (and region) play an equally important part in the commercial viability of agricultural enterprises. These risks not only merit attention on their own, but are also important to consider since they feedback and reinforce other risks within the wider picture of agricultural risks.

The evaluation will not turn to the limitations and delimitations of the research. The first limitation faced related to the overabundance of definitions advanced for the term „political risk‟. The various definitions attest to the complexity of the term and the extensive nature of the discipline. To overcome this challenge, an informed conceptualisation of political risk was obtained after having considered these various definitions. This provided the framework from which to identify the key political risk factors. This study did not however suggest that the four identified risk factors were the only factors that need to be measured and analysed when considering investing in South Africa's agricultural industry. The four identified political risks were however identified as the most important general risk factors to be considered.

This research is highly topical given the importance of investment in the agricultural industry in the region and increased interest amongst investors in this investment trend. Where agricultural investment involves the acquisition of land it becomes a potentially dangerous and risky enterprise. Land is a highly contentious and politically sensitive issue in Africa given its colonial past and the history of land dispossession. What aggravates the risk exposure of potential investors in this industry in Southern Africa, is the fact that land is mainly held by the state or customary authorities and not by the people themselves. Provided the dire socioeconomic status of the majority of the people who depend on subsistence farming, the relative wealth of organised farmers could trigger resentment amongst the populace. The agricultural industry in Southern Africa is thus highly susceptible to political risk.

5.4 RECOMMENDATIONS FOR FURTHER RESEARCH

By investigating political risk in the agricultural sector in Southern Africa, this research observed industry-specific political risk using the regional unit as a case study. In doing so, it contributed to the wider discussion relating to political risk analysis. By focusing on the agricultural industry this study has also demonstrated the wide-ranging scope of political risk analysis. Industry-specific research within political risk remains to be sub-category in need of further expansion. The first relates to research methodology. As this research used secondary data, the findings of this research could be enhanced using field research or more quality primary data through experts within the field.

Primary data can be sourced from a whole range of individuals ranging from communities affected by foreign investment in agriculture, local traditional authorities, governments, to the investors themselves and their experiences of political risk to their agricultural operations within the host countries. Information obtained through this diverse range of subjects would provide in-depth insight into this type of industry-specific political risk. As the focus was on investment which involved the acquisition of land, future research could also consider the political risk factors affecting other investment types in the agricultural field.

Another recommendation would be to expand the scope of this study to include the broad spectrum of tenants of risk management. This research was only concerned with identifying political risk factors in the region's agricultural industry as it sought to provide investors with a clearer way of considering the risk profile of their investment. Future research could therefore consider conducting an actual risk assessment within this industry in the region and develop risk management strategies to mitigate against these risks. Since the study used two case studies representatives of the region, future studies could expand the study to include other countries within the region.

5.5 CONCLUSION

The research formed part of the wider discussion within the academic field of political risk analysis. Its focused on the agricultural industry highlighted the dearth of knowledge in industry-specific studies and demonstrated the importance of political risk in addition to other types of risk concerning the agricultural sector. The findings highlighted the importance of the regional state as a unit of study in the international system (and when considering political risk). While the phenomenon on agricultural investment experienced a surge, this research indicated that it is an area that is highly susceptible to political risk in the African context. Land, which is a finite resource and which is valued economically socially and culturally, is a potentially dangerous investment. This research identified the salient political risk factors that need to be considered when deciding to proceed with agricultural investment with the view to establish large scale commercial farming operations. Understanding industry-specific risk would allow investors to comprehend and take full advantage of the opportunities that the Southern African agricultural region presents.

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